ORDER NO. 6109

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Michael Kubayanda, Chairman;
                                         Ann C. Fisher, Vice Chairman;
                                         Mark Acton;
                                         Ashley E. Poling; and
                                         Robert G. Taub

Periodic Reporting   Docket No. RM2021-4
(Proposal Two)

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL TWO)

(Issued February 22, 2022)

I.   INTRODUCTION

On March 24, 2021, the Postal Service filed a petition pursuant to 39 C.F.R.
§ 3050.11 requesting the Commission initiate a rulemaking proceeding to consider
changes to analytical principles relating to periodic reports.[1] The Postal Service
proposes to update the First-Class Mail Presort Letters (Presorted Letters) cost
avoidance models filed in the *Annual Compliance Report* (ACR) by reviewing the

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[1] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider
Proposed Changes in Analytical Principles (Proposal Two), March 24, 2021 (Petition). The proposal is
attached to the Petition (Proposal Two).

assignment of cost pools. Proposal Two at 1. For the reasons given below, the Commission approves Proposal Two, in part.

II.   PROCEDURAL HISTORY

On March 26, 2021, the Commission issued a notice establishing this proceeding, inviting comments on Proposal Two, and appointing a Public Representative.[2] On April 2, 2021, Pitney Bowes Inc. (Pitney Bowes) filed a motion seeking the issuance of an information request.[3] On April 7, 2021, Chairman's Information Request (CHIR) No. 1 was issued,[4] and on April 16, 2021, the Postal Service submitted its responses.[5] In addition, and in order to assist the Commission in its evaluation of the Postal Service's proposal, CHIR Nos. 2 through 6 were issued between April 22, 2021, and August 31, 2021.[6] The Postal Service responded to each CHIR.[7]

On May 14, 2021, the Commission received initial comments from the Public Representative, the Association for Postal Commerce (PostCom), Pitney Bowes, and

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[2] Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two), March 26, 2021 (Order No. 5852).

[3] Motion of Pitney Bowes Inc. for Issuance of Information Request, April 2, 2021.

[4] Chairman's Information Request No. 1, April 7, 2021 (CHIR No. 1).

[5] Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 1, April 16, 2021 (Response to CHIR No. 1).

[6] Chairman's Information Request No. 2, April 22, 2021 (CHIR No. 2); Chairman's Information Request No. 3, May 4, 2021 (CHIR No. 3); Chairman's Information Request No. 4, May 7, 2021 (CHIR No. 4); Chairman's Information Request No. 5, May 12, 2021 (CHIR No. 5); Chairman's Information Request No. 6, August 31, 2021 (CHIR No. 6).

[7] Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 2, April 29, 2021 (Response to CHIR No. 2); Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 3, May 11, 2021 (Response to CHIR No. 3); Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 4, May 14, 2021 (Response to CHIR No. 4); Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 5, May 19, 2021 (Response to CHIR No. 5); Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 6, September 7, 2021 (Response to CHIR No. 6).

the National Postal Policy Council (NPPC) *et al.*[8] On May 25, 2021, the Postal Service filed reply comments[9] together with a motion for leave to file those comments.[10] On May 28, 2021, Pitney Bowes filed surreply comments[11] together with a motion for leave to file those comments.[12]

III.   BACKGROUND

A.   Cost Avoidance Models

Mail processing costs are calculated using In-Office Cost System (IOCS) data to measure costs incurred each year for mail processing activities at the product level or within the same cost pools. These costs are found in Cost Segment 3.1 of the Cost and Revenue Analysis (CRA) report. For Presorted Letters, all of the activities involved in processing the letters are grouped into cost pools, each describing a different mail processing activity. Some cost pools account for a great deal of mail processing costs, while other cost pools contain a negligible amount of mail processing costs. Presorted Letters do not pass through every mail processing operation, and not every processing operation that presorted mail passes through is affected by presorting.

In order to determine the appropriate workshare discounts for Presorted Letters, the Postal Service determines the amount of costs avoided by mailer presort activities.

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[8] Public Representative Comments, May 14, 2021 (PR Comments); Comments of the Association for Postal Commerce, May 14, 2021 (PostCom Comments); Comments of Pitney Bowes Inc., May 14, 2021 (Pitney Bowes Comments); Comments of the National Postal Policy Council, the Major Mailers Association, the National Association of Presort Mailers, and the Association for Mail Electronic Enhancement, May 14, 2021 (NPPC *et al.* Comments).

[9] Reply Comments of the United States Postal Service Regarding Proposal Two, May 25, 2021 (Postal Service Reply Comments).

[10] Motion of the United States Postal Service for Leave to File Reply Comments Regarding Proposal Two, May 25, 2021. No responses in opposition were filed. The Commission hereby grants the motion.

[11] Surreply Comments of Pitney Bowes Inc., May 28, 2021 (Pitney Bowes Surreply Comments).

[12] Motion of Pitney Bowes Inc. for Leave to File Surreply, May 28, 2021. No responses in opposition were filed. The Commission hereby grants the motion.

To accomplish this, a workshare model was developed, which must be filed each year as part of the Postal Service's ACR. Proposal Two at 1. For each rate category, the mail processing flow is modeled by identifying which activities are involved in processing the mailpieces. *Id.* Each activity is assigned costs based on "the appropriate wage rate, productivity, and related indirect (i.e. 'piggyback') costs of each operation." *Id.* The resulting costs are called "directly modeled" costs. *Id.* However, the "directly modeled" costs can differ from those calculated as part of the CRA report for several reasons. *Id.* A CRA adjustment factor is used to reconcile this difference. *Id.* at 1-2.

The Commission has been engaged in the development and proper application of the CRA adjustment factor since at least Docket No. MC95-1, although many of the issues under consideration in the instant docket echo those first presented in earlier dockets such as Docket No. R90-1.[13] In Docket No. MC95-1, Postal Service witness Marc Smith first broke attributable mail processing costs into modeled and non-modeled costs.[14] As noted previously, mail processing costs at the product level, which include items not captured by the models, generally exceed modeled costs at the product level. Witness Smith described examples of non-modeled costs as "moving mail between operations, platform handling, mail preparation, piece distribution related to missorts, equipment capacity shortages, and costs related to undeliverable-as-addressed mail." *Id.*

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[13] For example, as part of Docket No. R90-1, the Postal Service provided both cost avoidance and cost difference estimates of Presorted Letters, but both approaches focused only on costs that were affected by worksharing. *See* Docket No. R90-1, Opinion and Recommendation, Volume 1 of 2, January 4, 1991, at ¶¶ 5067-68. Additionally, in the Commission's calculation of the cost difference between Presorted and Nonpresorted Letters, Incoming Secondary (IS) costs were not included as cost savings related to presort because the IS operation is not affected by presorting First-Class Mail Letters to the 3-Digit and 5-Digit level. *Id.* at ¶ 5066.

[14] Docket No. MC95-1, Opinion and Recommended Decision, Section 4, January 26, 1996, at ¶ 4080 (PRC Op. MC95-1).

In witness Smith's original formulation, the most appropriate way to distribute non-modeled costs was in proportion to modeled costs.[15] Therefore, the non-modeled cost factor was applied to the modeled costs of each rate category to bring mail processing costs in line with the CRA at the product level. The Commission found that both the modeled costs and the CRA adjustment factor produced reasonable estimates of the mail processing unit costs in Docket No. MC95-1 and approved their use. *See* PRC Op. MC95-1 at ¶¶ 4101, 4104. However, the Commission also noted the Postal Service's stated goal to model the costs currently not modeled, instead of applying an adjustment factor, and its suggestion that the issue be revisited in the next omnibus rate case. *Id.* at ¶ 4104.

In Docket No. R97-1, the Postal Service introduced, and the Commission approved, separate adjustment factors to differentiate cost pools where activities were sensitive to presort level and thus should have a multiplicative (*i.e.*, proportional) impact on the modeled costs from those cost pools and cost pools where activities were not sensitive to presort level (*i.e.*, fixed) and merely added to the modeled costs of a rate category.[16] The cost pools that were not sensitive to worksharing were the platform, sack-sorting, and all bulk mail center cost pools. PRC Op. R97-1 at ¶ 5040.

In Docket No. R2000-1, the Postal Service reclassified mail processing costs into three categories: workshare related (Proportional), workshare related (Fixed), and non-workshare related (also treated as Fixed).[17] The methodology was similar to the methodology presented in Docket No. R97-1, except the Postal Service proposed to exclude non-workshare-related costs from the cost avoidance estimate. PRC Op. R2000-1 at ¶ 5069. The Commission agreed with the exclusion but found that the

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[15] *See* Docket No. MC95-1, Direct Testimony of Marc A. Smith on Behalf of United States Postal Service, March 24, 1995, at 5 (Docket No. MC95-1, USPS-T-10).

[16] *See generally* Docket No. R97-1, Opinion and Recommended Decision, Volume 1, May 11, 1998 (PRC Op. R97-1).

[17] *See generally* Docket No. R2000-1, Opinion and Recommended Decision, Volume 1, November 13, 2000 (PRC Op. R2000-1).

Postal Service had not justified the reclassification of some cost pools as non-workshare related. *Id.* at ¶¶ 5088, 5090-91. This included any costs incurred to meet mail preparation standards and cost pools containing costs for platform, support, and non-MODS because Postal Service witness Miller confirmed that worksharing could affect these costs.[18] The Commission returned these costs to the appropriate workshare-related classification. PRC Op. R2000-1 at ¶ 5091.

B.   Docket No. R2006-1

The development of the CRA adjustment factor continued in Docket No. R2006-1 in order to "calibrate the model and 'true-up' the modeled costs to the costs reported in the CRA Report," by using the following equation:[19]

$$MailProcUnitCost_i = ModelUnitCost_i * CRAAdjustmentFactor + FixedUnitCost$$

Beginning in Docket No. R2006-1, the treatment of cost pools was separated into several categories: (1) directly modeled workshare-related costs (*i.e.*, Proportional), (2) workshare-related fixed costs (*i.e.*, Fixed), (3) partially proportional and partially fixed costs (*i.e.*, Piggybacked), and (4) non-workshare-related costs. PRC Op. R2006-1 at ¶¶ 5159, 5161.

Cost pools that are directly modeled are treated as Proportional.[20] Cost pools with costs incurred by workshared mail regardless of the level of presort being modeled are treated as Fixed. *Id.* at 33-34. Piggybacked cost pools, although not directly modeled, are considered much more likely to vary indirectly with presort level than to remained fixed. *Id.* at 34. Costs in the Piggybacked cost pools are assumed to vary to

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[18] *See id.* at ¶ 5091; *see also* Docket No. R2000-1, Transcript, Volume 7, April 18, 2000, at 3152-57.

[19] Proposal Two at 2; *see generally* Docket No. R2006-1, Opinion and Recommended Decision, Volume 1, February 26, 2007 (PRC Op. R2006-1).

[20] *See* Docket No. RM2010-13, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts, April 20, 2012, at 33 (Order No. 1320).

the same degree that average unit processing costs for Presorted Letters vary by presort level. *Id.* For that reason, these costs are distributed to workshare price categories in the same proportion as directly assigned costs. *Id.* Non-workshare-related cost pools are unrelated to worksharing activities. *Id.*

In terms of specific activities, cost pools with sorting activities are treated as Proportional; cost pools with forwarding, accepting, and customer service activities are treated as Fixed; cost pools with allied and support activities (which support all mail processing operations)[21] as well as unexpected cost pools[22] are treated as Piggybacked; and cost pools associated with mailgrams and special services are non-workshare related. PRC Op. R2006-1 at 147 n.92.

Any cost pools that are identified as Fixed or those cost pools that are non-workshare related do not impact the avoided costs between presort levels. However, the CRA adjustment factor changes based on the mix of Proportional, Fixed, and Piggybacked cost pools. The more Proportional costs, the higher the CRA adjustment factor will be.

The CRA adjustment factor is calculated using the following equation:[23]

$$CRAAdjustmentFactor = \frac{IOCSCost_{Proportional} + IOCSCost_{CorrelatedProportional}}{ModelUnitCost}$$

Proposal Two at 3.

It is important to note that, as part of Docket No. R2006-1, the Postal Service intended to include in the Presorted Letters cost avoidance model only those cost pools

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[21] Allied/support cost pools are "primarily the costs of unloading mail in bulk containers from trucks, moving the containers to sorting operations, putting sorted mail back into bulk containers, and loading them back onto trucks." Order No. 1320 at 34 n.40.

[22] Unexpected cost pools are the costs of letters recorded to have been sorted in an operation designed to sort only flats. *Id.* at 34 n.41.

[23] "Correlated Proportional" refers to the portion of Piggybacked costs assigned as Proportional.

that could be explicitly modeled. *Id.* at 2. Thus, under its proposal, all other cost pools would have been treated as Fixed and excluded from the cost avoidance model. *See generally* PRC Op. R2006-1. However, consistent with comments from Pitney Bowes, the Commission found that the Postal Service's position that non-modeled cost pools do not vary with presort level was unsupported by available data, while also finding that allied operations that support other mail processing activities are reasonably assumed to be at least indirectly affected by worksharing. *See id.* at ¶ 5161; *see also* Pitney Bowes Comments at 5.

C.   Docket No. RM2010-13

The Postal Service proposed revisions to the categorization of cost pools in Docket No. RM2010-13. *See generally* Order No. 1320. The Postal Service sought to classify cost pools as either Proportional or Fixed and end the use of Piggybacked cost pools. *Id.* at 34. The Postal Service asserted that there is not "an accurate way" to distinguish between Proportional and Fixed costs within Piggybacked cost pools. Docket No. RM2010-13, Postal Service Comments at 20. It maintained that the cost pool classifications for allied and support and unexpected cost pools were "arbitrarily adjusted" and that there was "no empirical basis for assuming" that the percent of Proportional costs within allied and support and unexpected cost pools is the same as the percent of clearly classified costs that are Proportional. *Id.* at 15.

The Postal Service proposed to treat unexpected cost pools as entirely Proportional, "largely as a matter of convenience," because "unexpected costs are so small that their treatment has little impact on estimated unit cost avoidances."[24]

The Postal Service also proposed to treat allied and support cost pools as Fixed. Order No. 1320 at 35. The Postal Service argued that to piggyback the costs in those cost pools "arbitrarily separates" the costs. *Id.* (citing Docket No. RM2010-13, Postal

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[24] Order No. 1320 at 35 (citing Docket No. RM2010-13, Initial Comments of the United States Postal Service, February 18, 2011, at 21 (Docket No. RM2010-13, Postal Service Comments)).

Service Comments at 16-21). The Postal Service maintained that to treat allied and support cost pools as Fixed "reduces the 'artificial enlargement of the CRA adjustment factor'" that it believes occurs when non-modeled cost pools are treated as partly Proportional and Piggybacked on modeled costs. Order No. 1320 at 35 (quoting Docket No. RM2010-13, Postal Service Comments at 18-20). The Postal Service relied on the descriptions of tasks performed in four specific cost pools (MODS 1PLATFRM, NONMODS ALLIED, MODS 1TRAYSORT, and MODS 1PRESORT) in order to justify the reclassification of 26 cost pools as Fixed.[25] The Postal Service maintained that the four cost pools were representative of all 26 cost pools. Order No. 1320 at 35-36.

For these four cost pools, Presorted Letters in bulk containers (pallets, sacks, rolling stock, and trays) are loaded and unloaded from trucks, given a crude sort depending on which operation they will go to next, and loaded back onto trucks.[26] The Postal Service noted that the current methodology requires the assumption that less finely presorted trays of letters incur more allied labor platform costs at plants than do more finely presorted trays of letters, which it states is "not intuitive, nor is it empirically based." *Id.* The total number of containers needed is based on volume, and the number of times each container is moved is based on how many facilities the container passes through prior to delivery. Order No. 1320 at 36. The Postal Service stated that the number of facilities the containers pass through is not affected by presorting. *Id.* (citing Docket No. RM2010-13, Postal Service Comments at 17-20).

However, the Commission noted that from an operational standpoint, the major elements of allied and support activities are "moving mail from a loading dock to various sorting operations, preparing the mail for induction in those operations, and then moving

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[25] Order No. 1320 at 35. The Postal Service descriptions of these cost pools' activities can be found in Docket No. RM2010-13, Postal Service Comments at 17-20.

[26] *Id.* at 36. For example, for MODS 1PLATFRM, the Postal Service noted that the cost pool's activities involve "loading and unloading trucks, crossdocking pallets and other containers of mail, and initial sorting of sacks and other containers of mail performed in the vehicle unloading process." Docket No. RM2010-13, Postal Service Comments at 17.

sorted mail back to the dock." Order No. 1320 at 41. "The level at which a mailing is presorted determines the number of direct sorting operations that it will require before it is delivered." *Id.* at 42. Therefore, the Commission concluded that "it is reasonable to assume that mail processing labor costs incurred by allied operations will vary in rough proportion to the number of sorting operations that they undergo." *Id.*

The Commission also acknowledged that these operations costs are difficult to model because "the volume and productivity of most allied [and] support operations have not been directly measured" and "are less well-defined and less standardized than piece sorting operations." *Id.* at 40. This is why any cost avoidance analysis relies primarily on operational inference as to how allied and support costs may vary with presort level. *Id.* at 40-41.

After consideration of comments and its own analysis, the Commission declined to adopt the Postal Service's proposed changes. The Commission concluded that the current method for allocating allied and support cost pools provided a better approximation of how the costs in those cost pools vary with presort level than to assume those costs are entirely fixed. *Id.* at 40. It found that the Postal Service's descriptions of allied and support operations were "incomplete and inaccurate" and instead found that the "more thorough analysis" of those operations by Pitney Bowes "confirms that they vary substantially with presort level." *Id.* The Commission indicated that "[u]ntil the Postal Service explicitly models allied [and] support costs, the Commission will adhere to the established piggyback method of distributing those costs." *Id.*

IV.   SUMMARY OF PROPOSAL TWO

The Postal Service states that, in the years since the current methodology was established, "the structure of cost pools has been configured to better align with operational practices, enhancing the ability to conduct operational analysis of cost pools." Proposal Two at 3. It notes that linking Full-Service Intelligent Mail barcode

(IMb)[27] scans to mailing documentation enables a significant portion of mail processing costs for Presorted Letters measured in the IOCS to be identified by presort level. *Id.* The Postal Service maintains that, with these developments in data availability, the current methodology is "in need of refinement" and that, in order for the models to accurately measure the costs avoided by presort workshare activities, cost pool assignments require "modernization" that "accurately reflects the current processing environment." *Id.*

A.   IOCS Tallies

The Postal Service notes that, although costs by presort level are not directly observable using the IOCS, it is possible to determine the presort rate for mailpieces prepared with the Full-Service IMb. Proposal Two at 11. The Postal Service explains that:

> IOCS data collectors are instructed to scan barcodes on mailpieces, where possible, in the course of on-site readings. Since the [Full-Service] IMb data structure includes a unique piece identifier to serve as the basis for a match, the resulting scans allow mailpieces with [Full-Service] IMb to be matched with piece-level mailing records, identifying the specific presort rate paid via the Postal Service's Informed Visibility system.

Id.

The Postal Service maintains that the data structure "allows the cost pool classifications to be assessed empirically." *Id.* It states that the IOCS analysis is an alternative to the Commission's previous request for allied and support activities to be modeled. *See* Response to CHIR No. 1, question 6.

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[27] Full-Service IMb is one of two Intelligent Mail offerings that requires a maximum 31-digit Intelligent Mail barcode comprising five fields: the Barcode ID, Service Type Identifier, Mailer ID, Serial Number, and Routing Code. The Full-Service Intelligent Mail option requires unique mailpiece barcodes, the use of Intelligent Mail barcodes on tray labels or container placards, electronic documentation, and the use of Facility Access and Shipment Tracking to schedule appointments for the entry of mailings. Postal terms are available at *https://about.usps.com/publications/pub32/pub32_terms.htm.*

For Proportional cost pools, the Postal Service indicates that the existence of presorting would be expected to yield proportions of IOCS tallies (or costs) that differ systematically from proportion of volumes. Proposal Two at 11. As such, the Postal Service notes that increased presort levels should be associated with lower costs relative to volumes. *Id.* It further notes that, for cost pools determined to be Fixed or non-workshare related, proportions of costs highly similar to volume proportions should occur if the underlying assumption that unit costs do not vary systemically with presort level is correct. *Id.*

The Postal Service notes that the matching mailpieces recorded during an IOCS reading to the applicable presort rate has three limitations. *Id.* at 12. First, barcode scan data are not collected for phone readings, which is the primary reading method for Post Office (NONMODS) mail processing operations. *Id.* Thus, the quantitative data provided by the Postal Service exclude NONMODS cost pools. Second, barcode scans are not collected for all on-site readings due to a variety of contingencies.[28] Finally, the matching process fails in some cases due to non-Full-Service IMb scans that cannot be matched to rate categories or due to database issues for some tallies with Full-Service IMb scans. *Id.* The Postal Service indicates that, overall, it was "able to match automation presort information for 54 percent of [Fiscal Year (FY)] 2020 plant mail processing tallies" for Presorted Letters with similar match rates for each cost pool category. *Id.*

The Postal Service indicates that when proportions of IOCS tallies and shares of volumes from the Revenue, Pieces, and Weight (RPW) report by rate category are compared, there are distinct proportions of tallies by presort level for each cost pool category. *Id.* at 13. The Postal Service notes that Fixed and non-workshare-related cost pool tally proportions are similar to volume proportions, whereas Proportional cost

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[28] *Id.* Contingencies include barcode readability, hand scanner performance, and mailpiece packaging. *Id.* These contingencies resulted in approximately 75 percent of on-site mail processing tallies of Presorted Letters in FY 2020. *Id.*

pools have tally proportions that differ more. *Id.* The Postal Service further notes that the difference between tally proportions and volume proportions for the Piggybacked cost pools lies between the Fixed and non-workshare-related and Proportional cost pools. *Id.* The Postal Service contends that this "suggest[s] that those activities' unit costs are in fact neither fully proportional to the [Proportional] [cost pools] nor as fixed with respect to presort level as the [Fixed and non-workshare-related] cost pools." *Id.*

B.   Cost Pool Reassignments

Currently, 52 cost pools are used to model costs for Presorted Letters. Under the Postal Service's proposal, 33 cost pools have an equivalent assignment and 19 cost pools are reassigned. Table IV-1 illustrates the Postal Service's proposed cost pool reassignments.

Table IV-1
Cost Pool Reassignments Under Proposal Two

Cost Pool	Current Assignment	Proposed Assignment
MODS AFSM100	Piggybacked	Proportional
MODS FSS	Piggybacked	Proportional
MODS MANF	Piggybacked	Proportional
NONMODS MANF	Piggybacked	Proportional
NDCS FSS	Piggybacked	Proportional
MODS 1OPPREF	Fixed	Piggybacked
MODS 1OPBULK	Fixed	Piggybacked
MODS 1POUCHNG	Fixed	Piggybacked
MODS REWRAP	Piggybacked	Fixed
MODS EXPRESS	Piggybacked	Fixed
NONMODS EXPRESS	Piggybacked	Fixed
MODS 1 MISC	Piggybacked	Fixed
NONMODS MISC	Piggybacked	Fixed
NONMODS BUSREPLY	Proportional	Fixed
MODS 1PLATFRM	Piggybacked	Fixed
NONMODS ALLIED	Piggybacked	Fixed
MODS 1SCAN	Piggybacked	Fixed
NDCS PLA	Piggybacked	Fixed
NONMODS D.PO BOX	Proportional	Fixed

These proposed cost pool reassignments can be organized into groups based on their reassignment and the justification associated with the reassignment.

MODS AFSM100, MODS FSS, MODS MANF, NONMODS MANF, and NDCS FSS. The Postal Service proposes to reassign these Flats-related cost pools from Piggybacked to Proportional.[29] It maintains that these cost pools should be assigned as Proportional because "some letter mail can and does flow into the flat-shape mailstream when field operations direct mail into that mailstream because of the dimensions or other characteristics of the pieces." Proposal Two at 5-6. The Postal Service states that although these flows "are not explicitly modeled[,]" "the activities and flow of pieces through these cost pools will be similar to the flow of letters through letter-shaped mail operations" and "will avoid comparable sorting operations based on presort levels." *Id.* at 6. It contends that because these cost pools are "direct piece sortation activities," they should be considered Proportional "for the purpose of calibrating the models to measured costs with the CRA adjustment factor[.]" Response to CHIR No. 2, question 3.b.

MODS 1OPPREF, MODS 1OPBULK, and MODS 1POUCHNG. The Postal Service proposes to reassign these cost pools from Fixed to Piggybacked. The Postal Service indicates that these cost pools are correlated with presort and generally associated with non-piece sorting allied labor and support operations such as mechanized and manual tray sorting. Proposal Two at 8. It maintains that, although these costs are not directly proportional to modeled piece costs, the costs in these cost pools may be partly avoidable with a greater degree of presorting. *Id.*

MODS REWRAP, MODS EXPRESS, and NONMODS EXPRESS. The Postal Service proposes to reassign these cost pools from Piggybacked to Fixed. It indicates that the activities associated with these cost pools are "incidental to the typical

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[29] These cost pools involve the mail processing of Flat-shaped mail (Flats). Letters with certain characteristics and/or dimensions cannot be processed through letter sortation machines and are therefore sorted through Flats sortation machines.

processing flow of letters." Response to CHIR No. 2, question 3.a. The Postal Service maintains that Presorted Letters are typically not processed in Express Mail operations. *Id.* Should such handling occur, it is "likely the result of an accident not caused by workshare activities." *Id.* More specifically, as it relates to mail processed in the MODS REWRAP cost pool, those mailpieces have been damaged accidently and are not caused by workshare activities. *Id.*

MODS 1MISC and NONMODS MISC. The Postal Service proposes to reassign these cost pools from Piggybacked to Fixed. This is because the activities associated with these cost pools are miscellaneous in nature and include such activities as the destruction of undeliverable as addressed mail. *Id.*

NONMODS BUSREPLY. The Postal Service proposes to reassign this cost pool from Proportional to Fixed. The Postal Service indicates that the NONMODS BUSREPLY cost pool was approved in Docket No. RM2011-12 and not in Docket No. R2006-1, when the cost pools for Presorted Letters models were initially assigned.[30] The Postal Service states that it is "not aware of a specific rationale for the classification, but believes it was intended to match the accepted classification as proportional of the [NONMODS AUTO/MEC] and manual letter distribution cost pools, where the costs for the BUSREPLY cost pool likely would have been recorded previously." Response to CHIR No. 2, question 3.d. The Postal Service maintains that the assignment of this cost pool as Proportional is "inconsistent with the accepted model's treatment of the MODS BUSREPLY cost pool as a non-worksharing fixed cost pool." *Id.* It contends that reassigning this cost pool as Fixed is "consistent[ ]" and "appropriate insofar as presorted letters would not be expected to flow to Business Reply Mail operations, and Business Reply-related costs should be excluded from the

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[30] *Id.* question 1.d.; *see generally* Docket No. RM2011-12, Order Concerning Analytical Principles for Periodic Reporting (Proposals Four Through Eight), October 21, 2011 (Order No. 920).

metered single-piece First-Class Mail cost benchmark because single-piece reply mail would not be able to migrate to a presort product." *Id.*

MODS 1PLATFRM, NONMODS ALLIED, MODS 1SCAN, and NDCS PLA. The Postal Service proposes to reassign these cost pools from Piggybacked to Fixed. The Postal Service states that the initial assignment of these cost pools as Piggybacked in Docket No. R2006-1 was due to a lack of Postal Service evidence that the non-modeled costs that make up these cost pools are not related to worksharing activities. *Id.* question 3.c.; *see also* PRC Op. R2006-1 at ¶ 5160. As part of Proposal Two, the Postal Service contends that, in analyzing IMb scans of IOCS tallies, it found there was no evidence that supported the treatment of these allied costs pool as Piggybacked. The Postal Service states that these cost pools "are associated with transportation activities, and in the case of letters, transportation activities and costs are not influenced by presort workshare." Response to CHIR No. 2, question 3.c.

More specifically, as it relates to the NONMODS ALLIED cost pool, the Postal Service states that the activities associated with this cost pool consist of unloading delivery point sequence (DPS) trays and "staging them for carriers, or unloading trays of mail that could not be DPS'd and taking them to manual Incoming Secondary (IS) operations." *Id.* It maintains that the costs incurred by this cost pool are experienced by all pieces regardless of presort when the pieces exit the mail processing stream, making this cost pool Fixed. Proposal Two at 7.

On the other hand, as it relates to the MODS 1PLATFRM cost pool, the Postal Service states that, although this cost pool "may be correlated with presort, …the correlation is unrelated to the cost of presorting the mail" and should be treated as Fixed. *Id.* It indicates that "[p]ieces paying the [automated area distribution center (AADC)] rate may incur higher MODS 1PLATFRM cost pool costs relative to 5-DIGIT pieces because they are less likely to be entered at the destination mail processing

facility, but once at the destination mail processing facility, they will experience identical platform activities."[31]

For both the NONMODS ALLIED and MODS 1PLATFRM cost pools, the Postal Service maintains that "mailings of all presort levels…are all comingled in the trays arriving from the plant and receive identical allied handlings at the delivery unit." *Id.*

NON MODS D.PO BOX. The Postal Service proposes to reassign this cost pool from Proportional to Fixed. The Postal Service states that the costs in this cost pool are incurred when a piece destinates at a Post Office (PO) Box and the cost pool is treated as Proportional because PO Box distribution is a modeled activity in an accepted cost model. Proposal Two at 6; Response to CHIR No. 2, question 3.d. However, it contends that "the model's assumed productivities from Docket No. MC95-1 are reliable, whereas it has made a number of changes to Cost Segment 3.1 to improve the measurement of PO Box distribution costs."[32] The Postal Service maintains that the costs in this cost pool are incurred regardless of presort level. Proposal Two at 6. As further support, the Postal Service indicates that, as part of Docket No. RM2012-8, the Commission addressed the treatment of PO Box distribution as workshare related in the context of processing flats and found that "the extent to which a piece is workshared (or not) would not appear to affect the cost of distributing it to a post office box" and that the "costs of sorting mailing to post office boxes are properly treated as non-modeled, i.e., non-worksharing related."[33] The Postal Service contends that its proposed reassignment in Proposal Two "mirrors [the] corresponding change previously accepted

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[31] *Id.*; *see also* Response to CHIR No. 2, question 3.c. The Postal Service maintains that, once pieces are at the destination mail processing facility, both AADC and 5-Digit trays are handled in MODS 1PLATFRM operations once they arrive, are unloaded, and dispatched to DPS trays, and then again as they leave the plant in DPS trays. Response to CHIR No. 2, question 3.c.

[32] Response to CHIR No. 2, question 3.d. The Postal Service indicates that the assumed productivity figures for sorting pieces to PO Boxes "dates back" to Docket No. MC95-1. *See generally* PRC Op. MC95-1.

[33] *See* Proposal Two at 6-7 (quoting Docket No. RM2012-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), February 14, 2013, at 17 (Order No. 1656); Response to CHIR No. 2, question 3.d.

by the Commission for presort flats models in Docket No. RM2012-8[.]" Response to CHIR No. 2, question 3.d.

Figure IV-1 illustrates the resulting cost pool distribution under Proposal Two.

Figure IV-1
Resulting Cost Pool Distribution under Proposal Two[34]
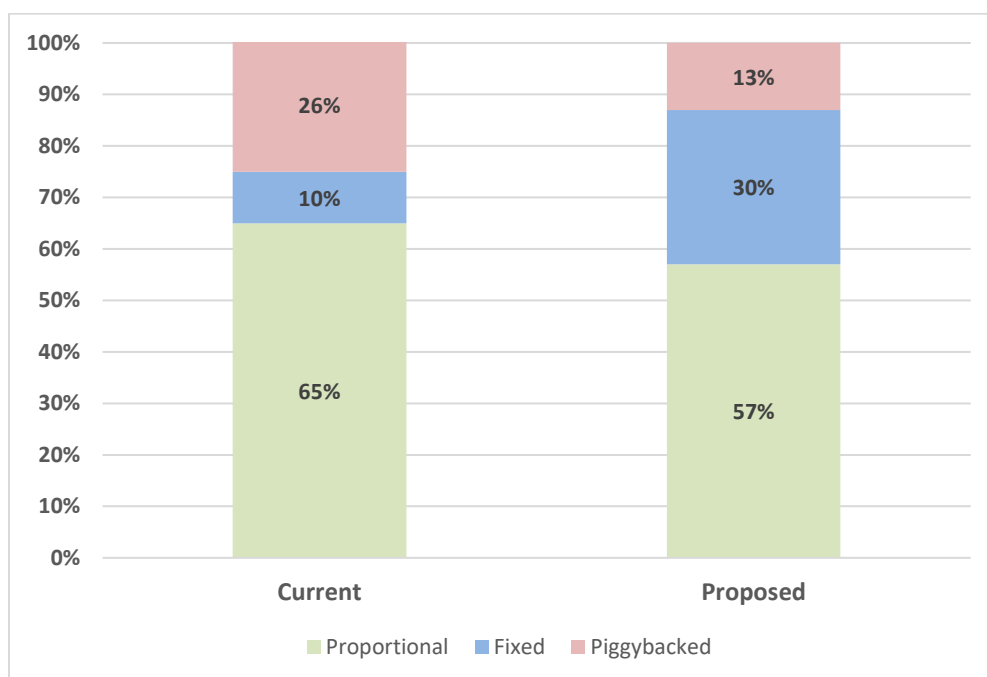
Impacts on avoided costs and passthroughs by category for Presorted Letters can be found in Table 3 of the Postal Service's proposal. *See* Proposal Two at 14.

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[34] Due to rounding, the numbers in this figure may not add to 100 percent.

C.   Removal of Costs Associated with PO Boxes

As part of Proposal Two, the Postal Service also proposes to no longer model the activity of distributing pieces to PO Boxes because these costs are explicitly measured in the ACR.[35] It contends that when the current methodology was developed, "the activity of distributing letter-shape pieces to P.O. boxes at NONMODS offices was subsumed in the NONMODS MANL cost pool, which also included the manual incoming secondary distribution of non-machinable mail and pieces rejected from automation at plants." Proposal Two at 10. The Postal Service maintains that, because both activities were performed under the same cost pool, "it was necessary to attempt to model both activities within the model as the two activities have vastly different workshare implications." *Id.* The Postal Service indicates that in FY 2011, the CRA was changed to measure the costs of PO Box distribution separately from other non-MODS manual operations, and later, the relevant cost pools were merged, resulting in a single measure of the costs of PO Box distribution in the ACR. *Id.* The Postal Service maintains that these subsequent "costing enhancements" have eliminated the need to model PO Box distribution costs, which it states are now "explicitly measured" as part of the ACR. *Id.* at 10-11. The Postal Service maintains that "[d]iscontinuing the P.O. box component of the [Presorted Letter] models also improves data quality by eliminating reliance on assumed productivity figures for sorting pieces to P.O. boxes." *Id.* at 11.

D.   Cost Pool Category Terminology

With Proposal Two, the Postal Service seeks to "revise cost pool classifications for the determination of the proportional and fixed adjustments to modeled costs" and "update the cost pool classification vocabulary to better reflect how the cost pools are treated in the calibration methodology." *Id.* at 4. It maintains that the terminology currently used to describe cost pool assignments, *i.e.*, "Proportional," "Fixed,"

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[35] *Id.* at 10; *see also* Docket No. ACR2020, Library Reference USPS-FY20-26, December 29, 2020.

"unexpected," "allied and support," and "non-workshare related" can be "opaque" and "inconsistent with uses of similar terms elsewhere." *Id.* For that reason, the Postal Service proposes three new cost pool classifications: "Modeled/Proportional Pools," "Unrelated to Presort," and "Correlated with Modeled." *Id.* The Postal Service contends that the new terms "better reflect how each cost pool is treated in the model calibration." *Id.*

Under the new terms, "Modeled/Proportional Pools" include "cost pools where the mailflow model directly characterizes the flow of mail through the pools and measures the cost of the component activities." *Id.* at 5. "Unrelated to Presort" includes cost pools where the "activities performed are incurred because of piece characteristics unrelated to presort and thus the costs are invariant to presort, and pools where the costs have spurious correlation with presort." *Id.* at 6. "Correlated with Modeled" includes cost pools that are generally associated with non-piece sorting allied labor and support operations. *Id.* at 8. The Postal Service notes that "Correlated with Modeled" cost pools may include costs that are "partly avoidable with a greater degree of presorting, but not directly proportional to modeled piece costs." *Id.*

It is important to note that the proposed terminology is interchangeable with the currently accepted terminology (*i.e.*, Proportional, Piggybacked, Fixed), which is illustrated in Table IV-2.[36]

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[36] As explained above, terminology such as "sorting," "forwarding," "allied and support," and "unexpected" describe cost pool groupings in terms of the operations performed by groups of cost pools, whereas "Proportional," "Piggybacked," and "Fixed" indicate a cost pool's relationship with presorting.

Table IV-2
Cost Pool Terminology

Current Cost Pool Terminology		Proposed Cost Pool Terminology
Proportional	➡	Modeled/Proportional
Piggybacked	➡	Correlated with Modeled
Fixed	➡	Unrelated to Presort

For clarity, the Commission uses the currently accepted terminology (*i.e.*, Proportional, Piggybacked, and Fixed) throughout the remainder of the instant Order and completes its analysis on the proposed terminology changes in Section VI.F., *infra.*

V.   COMMENTS

A.   Public Representative Comments

The Public Representative does not support portions of Proposal Two and recommends that the Commission reject the reclassification of cost pools as Fixed that are associated with allied activities.[37] She maintains that "[t]he qualitative analysis presented by the Postal Service only touches on a few cost pools, and provides no new rationale compared with previous dockets where [the Postal Service] tried to persuade the Commission to treat allied costs as fixed with respect to presort." PR Comments at 3. The Public Representative notes the quantitative data (IOCS tallies) provided by the Postal Service but contends that the Postal Service fails to meet the burden of proof necessary to compel the reassignment of allied cost pools. *Id.* at 3-4. She cites to previous Commission proceedings where the Commission has rejected Postal Service proposals to categorize allied cost pools as fixed. *Id.* The Public Representative notes that, most recently in Docket No. RM2010-13, the Commission explained that it

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[37] PR Comments at 3. The Commission believes the Public Representative is referring to the MODS 1PLATFRM, NONMODS ALLIED, MODS 1SCAN, and NDCS PLA cost pools. These are allied cost pools the Postal Service proposes to reassign from Piggybacked to Fixed. *See* Section IV.B., *supra.*

"remains convinced that distributing allied [and] support and unexpected costs in the same proportions as all other costs is the best approximation of the effect that presort level has on those costs." *Id.*; Order No. 1320 at 42.

She states that the Postal Service's categorization of some cost pools as Fixed is because the average proportion of IOCS tallies by presort level for those cost pools is more closely aligned with the proportions of volume by presort level compared with the Piggybacked and Proportional cost pools. PR Comments at 4. She cites to a Postal Service statement that "[u]nrelated operations should exhibit proportions of costs highly similar to volume proportions if the underlying assumption that unit costs do not vary systematically with presort level is correct." *Id.*; *see also* Proposal Two at 11. However, she contends that "a thorough examination" of the proportion of costs by presort level for the cost pools deemed unrelated to worksharing show that some of those cost pools are, in fact, "less aligned" with the proportion of volume by presort level than some cost pools in the Piggybacked and Proportional cost pools. PR Comments at 4. The Public Representative maintains that Table 1 of her comments illustrates that "the proportion of tallies are not highly similar to the volume proportions for a number of cost pools categorized by the Postal Service as [Fixed]," and that "based on its own test, the Postal Service miscategorizes allied operations" as Fixed. *Id.*

The Public Representative also contends that the IOCS tallies data used by the Postal Service should not be "considered reliable," as the majority of direct tallies in cost pools deemed Fixed were excluded from some of the information presented by the Postal Service.[38]

She maintains that the Postal Service has not justified its reassignment of some allied and support cost pools, and that its "failure to classify cost pools that vary with

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[38] *Id.* at 5; *see also* Proposal Two at 13; Response to CHIR No. 1, question 2.c.

presort level as [P]roportional understates workshare cost avoidance estimates and sends inefficient price signals."[39]

As it relates to the removal of the costs associated with PO Boxes, the Public Representative supports the Postal Service's proposal and states that "the Postal Service makes a reasonable argument that because the costs are explicitly measured, there is no longer a need to model the activity." *Id.*

B.   PostCom Comments

PostCom does not support the Postal Service's proposed changes, indicating that the Postal Service "does not provide sufficient new information to justify departing from Commission decisions rejecting previous attempts to reclassify allied and support cost pools in cost avoidance models." PostCom Comments at 1. Similar to the Public Representative, PostCom cites to the Commission's decision in Docket No. RM2010-13, where the Commission states that "[u]ntil the Postal Service explicitly models allied [and] support costs, the Commission will adhere to the established piggyback method of distributing those costs." *Id.* at 1-2 (quoting Order No. 1320 at 40). PostCom recommends the Commission reject Proposal Two. PostCom Comments at 2.

PostCom advocates increasing the use of Full-Service IMb in order to identify the costs associated with mail processing. *Id.* It contends the Full-Service IMb data used by the Postal Service in Proposal Two are "insufficient" to support the Postal Service's proposed changes. *Id.* This is because the Postal Service's data are limited to only the Full-Service IMb scans collected during the IOCS sampling process. *Id.* PostCom cites to the Postal Service's acknowledgment that it is unable to collect scans for "a significant portion of IOCS readings—either because the readings are collected by

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[39] PR Comments at 5-6. The Public Representative supports the Postal Service's proposed cost pool terminology and appears to agree that the proposed terminology "better reflect[s] how each cost pool is treated in the model calibration." *Id.* at 5.

phone or there are various contingencies preventing the collection of accurate scan data." *Id.* (citing Proposal Two at 12).

PostCom contends that the Postal Service's proposal would create "significant" changes in the avoided costs estimates used to develop workshare discounts, potentially causing "greater volatility in prices" and undermining pricing predictability. PostCom Comments at 2-3.

PostCom further contends that the Postal Service's proposal represents an "ad hoc change[] [in] approach designed to address selective problems," instead of "present[ing] a comprehensive plan to improve costing[.]" *Id.* at 3. PostCom suggests that the "timing and content" of the Postal Service's proposal are indicative of an "attempt[] to evade compliance with the Commission's new passthrough requirements…." *Id.*

PostCom does not comment on the Postal Service's proposed removal of the costs associated with PO Boxes. *See generally id.*

C.   NPPC *et al.* Comments

NPPC *et al.* do not support the Postal Service's proposal as it relates to the cost pool reassignments and the removal of the costs associated with PO Boxes. NPPC *et al.* Comments at 1-2. They recommend the Commission reject Proposal Two. *Id.* at 2.

First, NPPC *et al.* note that the Commission has rejected similar Postal Service attempts to reassign certain cost pools. *Id.* at 2-3. They note the Commission's opinion in Docket No. R2006-1, where the Commission concluded that "non-modeled allied [and] support and unexpected costs 'are affected by worksharing to the same extent as the proportional and fixed operations they support[.]'" *Id.* at 2 (quoting PRC Op. R2006-1 at 147-48). As part of that opinion, the Commission rejected "a Postal Service proposal to the contrary." NPPC *et al.* Comments at 2 (citing PRC Op. R2006-1 at 147-48).

Next, NPPC *et al.* discuss the Commission's rejection of the Postal Service's proposal in Docket No. RM2020-13. NPPC *et al.* Comments at 2. They note that the Postal Service argued that with no accurate way to distinguish proportional costs from fixed costs within a given cost pool, the Commission should assume that if a cost pool had not been modeled, then such costs are fixed (and not variable) with respect to presort level. *Id.* at 2-3; *see also* Order No. 1320 at 34-35. As part of that proceeding, NPPC *et al.* also note that the Postal Service sought to treat unexpected cost pools as proportional rather than piggybacked. NPPC *et al.* Comments at 3; *see* Order No. 1320 at 35. NPPC *et al.* indicate that the Commission rejected these proposed changes and was "persuaded that the allied [and] support costs…support distribution operations and therefore reasonably would be expected to vary indirectly with presort level...." NPPC *et al.* Comments at 3; *see generally* Order No. 1320 at 40-42. Similar to the Public Representative and PostCom, NPPC *et al.* cite to the Commission's finding that "[u]ntil the Postal Service explicitly models allied [and] support costs, the Commission will adhere to the established piggyback method of distributing those costs." *Id.* at 1-2, 4 (quoting Order No. 1320 at 40). They contend that the Postal Service's failure to prepare and submit such a model of allied and support cost pools "constitutes sufficient grounds for denying" the Postal Service's proposed changes. NPPC *et al.* Comments at 5.

Second, NPPC *et al.* maintain that the Postal Service's proposed cost pool reassignments should be rejected because the Postal Service "failed to show that the costs that it seeks to reclassify do not vary among presort levels." *Id.* They contend "the Postal Service's position…directly conflicts with its own mailflow models." *Id.* NPPC *et al.* cite to the Postal Service's argument that although mailflow models show that levels of presort[40] bypass mail processing operations, "the avoidance of platform operations in the MODS 1PLATFRM and NDC PLA cost pools…depend[s] on

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[40] Automation Mixed AADC, Automation AADC, and Automation 5-Digit Other Letters. *Id.*

dropshipping, not presort level." *Id.* at 5-6. However, NPPC *et al.* state that the Commission previously rejected that argument in Docket No. RM2010-13 and instead found that "evidence showed…density is correlated with presort levels and that, accordingly, platform operations costs are not fixed." *Id.* at 6; *see* Order No. 1320 at 42. NPPC *et al.* also take issue with the Postal Service's use of IOCS tallies and its attempt to match them to IMb scans. NPPC *et al.* Comments at 6. They state that the Postal Service failed to prove that the data presented are representative of the mail processing operations that make up Proposal Two. *Id.* NPPC *et al.* cite the Postal Service's own admission that it did not conduct a formal analysis to determine if the data used to support Proposal Two are representative of mail costs for which the Postal Service was not able to link IMb scans, which the Commission indicated would be necessary. *Id.*; Order No. 1320 at 50.

Furthermore, NPPC *et al.* note the Postal Service's contention that its IOCS tally proportions for the group of cost pools deemed Piggybacked support the proposed changes because they fall between the Proportional and Fixed cost pool groupings. NPPC *et al.* Comments at 6-7; *see* Proposal Two, Table 2. However, NPPC *et al.* indicate that the FY 2020 IOCS tally data provided as part of Proposal Two, and the same data for FY 2018 and FY 2019 provided in its Response to CHIR No. 3, "show distinctly different results." NPPC *et al.* Comments at 7; *see* Response to CHIR No. 3, question 7. They maintain that, during FY 2018 and FY 2019, the cost pool groups deemed Piggybacked are "almost identical" to the Proportional cost pool groups for the same years. NPPC *et al.* Comments at 7. NPPC *et al.* further maintain that the Postal Service's Response to CHIR No. 3 "strongly suggest[s] that the Postal Service is incorrect" in asserting that these cost pools are not related to presort. *Id.*

NPPC *et al.* state that the Postal Service's "failure to model the allied [and] support cost pools" and "the inconsistency of its current proposal with established cost distribution methodologies require rejection of Proposal Two." *Id.*

Finally, NPPC *et al.* recommend that the Commission reject the Postal Service's proposed removal of the costs associated with PO Boxes. They describe the Postal Service's position as being that "the costs of distributing mail pieces to P.O. Boxes do not vary with (or are 'fixed with respect to' or 'unrelated' to) worksharing rate category." *Id.* NPPC *et al.* state this premise is "unsupported" and is contrary to Postal Service models. *Id.*

Additionally, NPPC *et al.* state that the Postal Service's justification is "inconsistent with its workflow models, which indicate that more finely presorted mail incurs lower P.O. Box costs." *Id.* at 8. They maintain that "Commission precedent holds that worksharing does, in fact, reduce such costs." *Id.* NPPC *et al.* also point out the Postal Service's assertion that "the productivity factor used for P.O. Box costs used in the established model 'is implausibly high for a manual distribution activity.'" *Id.* (quoting Response to CHIR No. 1, question 4.d.). They disagree with the Postal Service's contention that PO Box costs are "*completely* unaffected by worksharing" and need to be eliminated from the CRA adjustment. NPPC *et al.* Comments at 8 (emphasis in original). NPPC *et al.* describe the Postal Service's arguments as "drastic" and "neither justified nor reasonable." *Id.* They note the Postal Service's admission that it has not studied the distribution of PO Box mail and maintain that a "more reasonable approach" would have been to study the distribution of PO Box mail "to see whether a lower (or higher) productivity would be more accurate today." *Id.* at 8-9.

NPPC *et al.* also question increases in PO Box unit costs for letter-shaped mail. *Id.* at 9. They contend that the Postal Service's explanation for these increases ("implementation of a new facility space study and changes in the treatment of certain costs pools") is not supported by the record or supported by quantitative results. *Id.* (citing Response to CHIR No. 1, question 4). NPPC *et al.* encourage the Commission to "explore this issue more deeply to have a better understanding of what is occurring before it approves the proposed methodology changes." NPPC *et al.* Comments at 9.

D.   Pitney Bowes Comments

Pitney Bowes does not support the Postal Service's proposed changes and recommends the Commission reject Proposal Two.[41]

Similar to other commenters, Pitney Bowes discusses previous docketed proceedings that involved the assignment of cost pools associated with the Presorted Letters cost avoidance model. *See generally* Pitney Bowes Comments at 5-7. Pitney Bowes notes that in both Docket No. R2006-1 and Docket No. RM2010-13, the Commission found that the Postal Service's argument that non-modeled cost pools do not vary with presort level was unsupported.[42] Additionally, it notes that "the Commission was clear that future proposals to change the established cost methodology must be based on real evidence." Pitney Bowes Comments at 6, 11 (citing Order No. 1320 at 40). It maintains that "[d]espite the surface-level vocabulary changes, the underlying reality is that Proposal Two is functionally indistinguishable from the Postal Service's prior proposals that the Commission fully considered and then properly rejected." Pitney Bowes Comments at 7.

Pitney Bowes notes that the "net effect" of the Postal Service's proposed changes "would be to substantially increase the number of cost pools that are classified as fixed and, thus, are excluded from the cost avoidance model." *Id.* It also notes the impact that Proposal Two would have on unit costs for each category of cost pools, resulting in the exclusion of 25 percent of total unit costs through the reclassification of some cost pools as Fixed. *Id.* at 8. Pitney Bowes states that the accurate assignment of cost pools "is important because it directly affects measurement of avoided costs and, ultimately, discounts and effective prices." *Id.* at 10. Similar to PostCom, Pitney Bowes suggests that the "timing and intended effects" of Proposal Two, among other factors, warrants the proposal's rejection as a "results-oriented effort to reduce

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[41] Pitney Bowes Comments at 1. NPPC *et al.* indicate that they have reviewed and endorse Pitney Bowes' "extensive" comments. *See* NPPC *et al.* Comments at 1 n.1.

[42] *Id.* at 5 (citing PRC Op. R2006-1 at ¶ 5160); Order No. 1320 at 41-42.

workshare discounts before the Commission's new workshare rules take effect." *Id.* at 10.

As it relates to the use of IOCS tallies, Pitney Bowes contends that the Postal Service's data are "incomplete and unreliable." *Id.* at 12-17. Pitney Bowes maintains that, despite the Postal Service's explanation of the percentage of costs it was able to match to rate categories, the actual match rate is lower. *Id.* at 13. It notes that, for the costs of activities that do not generate IMb scans, the Postal Service did not attempt any additional analysis. *Id.* at 14. Pitney Bowes maintains that the Postal Service's proposal "rests entirely on…informal speculations that the matched direct tally costs might be representative of the remaining direct tally, mixed-mail, and not-handling costs." *Id.* It further maintains that the IOCS analysis covering FYs 2018 and 2019 contradict the conclusions drawn by the Postal Service for the IOCS analysis in FY 2020. *Id.* at 16.

Pitney Bowes maintains that operational and volume-variable studies support the established piggyback method for allied and support costs and that the Postal Service provides no evidence to rebut this. *See generally id.* at 17-23. Furthermore, Pitney Bowes maintains that the current methodology reflects established cost attribution and distribution methodologies and that these methodologies also support that allied and support costs vary with presort level. *Id.* Pitney Bowes indicates that the reclassification of 11 cost pools from Piggybacked to Fixed is not supported by operational analysis that indicates allied and support cost pools vary with presort level. *Id.* at 23. Pitney Bowes cites the Commission's previous finding that allied and support cost pools support all mail processing operations, and argues that it is thus reasonable to assume these cost pools are affected by worksharing. *Id.* (citing PRC Op. R2006-1 at ¶ 5161). Pitney Bowes maintains that the Postal Service has not provided any new evidence to rebut the Commission's previous conclusions. Pitney Bowes Comments at 24.

Pitney Bowes presents its own "thought experiment" and maintains that the information presented confirms allied and support cost pools vary with presort level. *See generally id.* at 30-32.

As it relates to the removal of PO Box costs from the cost avoidance model, Pitney Bowes does not support the Postal Service's proposal. *Id.* at 32. Pitney Bowes states that the established cost avoidance model shows that PO Box costs vary by First-Class Mail rate category. *Id.* Pitney Bowes does not agree with the comparison of the exclusion of PO Box costs from the Flats cost avoidance model. *Id.* at 33. It claims that almost all letters are sorted to DPS on automation, whereas the vast majority of Flats are only sorted to carrier route on automation.[43] Pitney Bowes maintains that PO Box costs may include the cost of manual sorting, and to exclude the costs from the model would understate the CRA adjustment. *Id.* This would occur despite recent increases in the size of the PO Box sorting cost pool that suggests PO Box costs include manual letter sorting costs. *Id.* at 34. It notes the Postal Service's explanation that increases in the PO Box sorting cost pool are due to a method change related to space costs. *Id.* However, Pitney Bowes found the explanation to be unpersuasive, stating that "the same overall trends appear in unpiggybacked P.O. Box costs, which exclude space costs." *Id.* It also notes the Postal Service's suggestion that the increases in the PO Box sorting cost pool are due to an IOCS change between FY 2017 and FY 2018. *Id.* at 34 (citing Response to CHIR No.1, question 4.c.). It maintains that the Postal Service's suggestion is not supported by the data and that, while there was an increase during those fiscal years, the significant increases occurred after that time frame. Pitney Bowes Comments at 34-35.

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[43] *Id.* The Commission notes that this is significant because, at each Post Office, all Flats are sorted by hand, whereas Letters come in DPS and non-DPS trays, *i.e.*, are presorted. If mailpieces receive identical handling, costs may be justified as Fixed; however, if mailpieces receive different levels of handling, costs are less likely to be justified as Fixed.

Pitney Bowes maintains that the removal of PO Box costs is "non-trivial," and for the reasons discussed, recommends that the Commission reject the Postal Service's proposed changes. *Id.* at 35.

E.   Postal Service Reply Comments

The Postal Service maintains that the "merits of Proposal Two are sound" and that the "criticisms advanced by the commenters offer no valid basis for rejection of the proposal." Postal Service Reply Comments at 1.

The Postal Service does not agree with commenters' comparisons of Proposal Two to previous attempts to reassign cost pools, describing them as mischaracterizations. *Id.* at 1-2. It indicates that, with Proposal Two, allied cost pools were "carefully" separated into those influenced by actions necessary for presortation and those that are not. *Id.* at 1. The Postal Service maintains that it does not "broadly seek[ ] to reclassify" allied cost pools from Piggybacked to non-workshare related as commenters suggest. *Id.* at 2-3. It states that some changes are made to correct inconsistencies, while others stem from the activities of the cost pools themselves. *Id.* at 3-4.

The Postal Service does not agree with commenters that in order to reclassify allied cost pools, they needed to be directly modeled. *Id.* at 5. It maintains that commenters "fail to recognize the practical distinction between two types of cost pools." *Id.* For some allied cost pools with platform and scanning operations, the Postal Service notes "there is unquestionably an active controversy as to the relative roles of presorting and drop-shipping in cost differences by rate category." *Id.* However, it notes that other allied cost pools were reassigned to resolve inconsistencies or address operations that are not related to processing Presorted Letters. *Id.*

For the second type, the Postal Service appears to suggest that the Commission should accept the reassignments based on the nature of the work activities and where modeling complexity would be great and the costs involved are small. *Id.*

For the first type, the Postal Service appears to contend that it is not reasonable to require the development of a quantitative model to justify cost pool reassignments, as commenters suggest, because the accepted methodology itself originated with a "thought experiment." *Id.* at 6.

The Postal Service maintains that the cost avoidances for allied cost pools with platform and scanning activities arise due to dropship differences and not presort differences. *Id.* It further maintains that Pitney Bowes specifically conflates "presort cost avoidances in distribution and non-platform allied labor operations with dropship cost avoidances arising in platform and scanning operations...."[44] The Postal Service does not dispute there are correlations between presort depth and platform costs; however, it insists that the resulting cost avoidances are caused by dropshipping and not presorting. Postal Service Reply Comments at 7. The Postal Service contends that Pitney Bowes' observations related to NONMODS ALLIED are irrelevant and "obfuscates the central question of how increased presort would allow pieces to avoid unloading at the destination post office in proportion to modeled cost differences, when [Presorted Letters] overwhelmingly arrive in DPS trays regardless of presort level." *Id.* at 8. It further contends that combining presort and dropship effects is "undesirable," "sends incorrect price signals for presorting" by overvaluing it, and "effectively compensates non-dropshipping mailers for dropship activities they do not actually perform." *Id.* at 9.

As it relates to the removal of PO Box distribution costs from the Presorted Letters models, the Postal Service maintains the removal is supported by Commission precedent and the record in this docket. *Id.* at 10. It states that NPPC *et al.*'s analogy between carrier casing cost avoidance due to DPS and PO Box distribution costs is "inappropriate" because DPS mail can avoid carrier casing, while mail sent to PO Boxes

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[44] *Id.* at 7. The Postal Service maintains that the Pitney Bowes "Simple Thought Experiment" also depends on conflating presort and dropship effects on costs. *Id.* at 9; *see* Pitney Bowes Comments at 30-32.

must be sorted into the boxes. *Id.* at 11. The Postal Service also disagrees with NPPC *et al.* and Pitney Bowes' assertion that changes to measured PO Box costs in the CRA are unexplained, as the Postal Service indicates it provided multiple methodological changes affecting both piggybacked and unpiggybacked PO Box costs. *Id.* The Postal Service reiterates its belief that the existing model overstates DPS PO Box productivity and inflates related cost avoidances. *Id.* at 11-12.

F.   Pitney Bowes Surreply Comments

Pitney Bowes notes that Proposal Two has "two distinct elements": the reclassification of allied and support cost pools and the removal of PO Box activities from the Presorted Letters cost avoidance model. Pitney Bowes Surreply Comments at 1.

As it relates to the first element, Pitney Bowes indicates that its comments (as well as others) found the allied and support cost pool reassignments as "unsupported and incomplete." *Id.* It also notes the Postal Service's response that commenters "impose 'too high a bar' requiring 'extraordinary evidence' to justify a change." *Id.* (quoting Postal Service Reply Comments at 4, 6). However, Pitney Bowes notes that, in its reply comments, the Postal Service does not "attempt to rehabilitate" the completeness or reliability of its IOCS analysis and instead "fall[s] back" on its "narrative description" of the "'nature of work activities' performed within select cost pools." Pitney Bowes Surreply Comments at 2 (quoting Postal Service Reply Comments at 5). Pitney Bowes maintains that it is not unreasonable to expect the Postal Service to model allied and support costs. *Id.* It contends the Postal Service "concedes that it failed to meet the burden of proof the Commission has repeatedly stated is required," and so Proposal Two "must be rejected." *Id.*

Pitney Bowes dismisses the Postal Service's description of the current piggyback method as a "thought experiment." *Id.* (citing Postal Service Reply Comments at 6). It maintains that the current methodology, and that allied and support cost pools vary

indirectly by presort level, is supported by "available CRA cost data, established methods for cost attribution and distribution, and operational analysis." Pitney Bowes Surreply Comments at 2-3.

Pitney Bowes also dismisses the Postal Service's response regarding commenters' and the Commission's previous conflation of the cause of variations by rate category in allied and support costs and the Postal Service's contention that there is a difference between presort and dropship cost avoidance. *Id.* at 3 (citing Postal Service Reply Comments 7, 9).

Pitney Bowes indicates that the Postal Service's reply comments "underscore the merit" of its proposal that separate CRA adjustment factors for IS and non-IS costs within First-Class Mail. Pitney Bowes Surreply Comments at 3. It maintains that the use of deaveraged CRA adjustment factors would "likely demonstrate" that the Presorted Letters cost avoidance model understates costs avoided by presortation. *Id.*

As it relates to the second element, Pitney Bowes states that the Postal Service's own reply comments "concede" the cost avoidance model shows PO Box costs vary by presort level. *Id.* at 4. It further states that the Postal Service's concession undermines the Postal Service's previous contention that Commission precedent supports removal of PO Box costs. *Id.*; *see* Proposal Two at 6-7. Pitney Bowes disagrees with the comparison of the treatment of PO Box costs for flats and letters. It maintains that their comparison is "inapposite because of the differences in how letters and flats are processed." Pitney Bowes Surreply Comments at 4.

Pitney Bowes contends that it is "not unreasonable" for the Commission to require quantitative analysis for any proposed changes to the Presorted Letters cost avoidance model. *Id.* It notes that the Postal Service "disparages" the study on which PO Box productivities are based, yet it "has not performed a more recent study to update the productivities" or provided evidence that the initial study is unreliable. *Id.*

For these reasons, Pitney Bowes continues to recommend that the Commission reject Proposal Two. *Id.* at 5.

VI.   COMMISSION ANALYSIS

A.   Legal Requirements

Proceedings "to improve the quality, accuracy, or completeness of Postal Service data required by the Commission" may be initiated if "the attribution of costs or revenues to products has become significantly inaccurate or can be significantly improved," or if "such revisions are, in the judgment of the Commission, otherwise necessitated by the public interest."[45] Changing the classification of cost pools, as the Postal Service proposes in the instant docket, qualifies as a change in accepted analytical principles.[46] To approve a proposed change in an analytical principle, the Commission must find that the proposed change improves the quality, accuracy, or completeness of the data (or the analysis of data) in the annual periodic reports the Postal Service files with the Commission. 39 C.F.R. § 3050.11(a).

For the reasons discussed below, the Commission finds that the applicable legal requirements have been satisfied for a majority of the cost pool reassignments proposed by the Postal Service. For each of those cost pools, although the Postal Service's quantitative support is insufficient, the Commission finds the Postal Service's qualitative support to be accurate and reasonable; thus, reassignment of certain cost pools would represent an improvement over the current assignment. However, for five of the proposed cost pool reassignments, as well as the removal of PO Box costs from

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[45] 39 U.S.C. § 3652(e)(2)(A), (C). Additional grounds for data improvement occur when "the quality of service data has become significantly inaccurate or can be significantly improved," which does not apply here. 39 U.S.C. § 3652(e)(2)(B).

[46] *See* Docket No. RM2008-4, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008, at 29 (Order No. 104); *see also* Docket No. RM2012-6, Notice of Proposed Rulemaking on Analytical Principle Used in Periodic Reporting (Pitney Bowes Inc. Proposal One), October 23, 2012, at 8 (Order No. 1510).

the Presorted Letters cost avoidance model, the Commission finds that the applicable legal requirements have not been satisfied. For these five cost pools, after scrutinizing the Postal Service's quantitative and qualitative support, the Commission finds both to be insufficient to invalidate the current cost pool assignment or to justify reassignment.

   B.   Impact of Previous Commission Decisions

   The Commission maintains that its analysis described below and its determination related to the Postal Service's proposed cost pool reassignments are consistent with prior orders on this matter.

   As commenters note, the Commission has considered and made previous findings related to the cost pool treatment for Presorted Letters.[47] As noted above, issues related to cost avoidance models and the CRA adjustment factor date back to as early as Docket No. R90-1. The current methodology was introduced as part of Docket No. R2006-1 and later affirmed in Docket No. RM2010-13. *See generally* PRC Op. R2006-1; Order No. 1320. Due to similarities between Docket No. R2006-1, Docket No. RM2010-13, and the instant docket, commenters appear to consider all three dockets as analogous and attempt a blanket application of the Commission's conclusions in the earlier dockets to Proposal Two.[48] However, the Commission finds that the Postal Service's proposed cost pool reassignments and supporting justifications are not entirely analogous across the three dockets.

   In Docket No. R2006-1, the Postal Service sought to include only those cost pools that could be explicitly modeled in the Presorted Letters cost avoidance model, and all other workshare-related cost pools would be treated as Fixed. Proposal Two at 2; *see generally* PRC Op. R2006-1. However, the Commission found that, although

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   [47] *See, e.g.*, PR Comments at 3-4; NPPC *et al.* Comments at 2, 3; PostCom Comments at 1-2; Pitney Bowes Comments at 5-7.

   [48] *See, e.g.*, PR Comments at 3-4; NPPC *et al.* Comments at 2, 3; PostCom Comments at 1-2; Pitney Bowes Comments at 5-7.

some cost pools are not directly modeled (*i.e.*, allied and support cost pools, as well as unexpected cost pools), these cost pools are much more likely to vary indirectly with presort level than to remain fixed and should be treated as Piggybacked. As a result, the assignments of Proportional (*i.e.*, modeled), Fixed, and Piggybacked cost pools began.

In Docket No. RM2010-13, the Postal Service proposed similar, but not identical, cost pool reassignments to those proposed as part of Docket No. R2006-1. The Postal Service sought to end the use of Piggybacked cost pools entirely and proposed to treat *all* allied and support cost pools as Fixed and *all* unexpected cost pools as Proportional. Order No. 1320 at 34-35. The Postal Service argued that the current methodology and the use of Piggybacked cost pools was arbitrary. *Id.* at 35. For several reasons, the Commission concluded that distributing allied and support and unexpected costs in the same proportions as all other costs continued to be the best approximation of the effect that presort level has on those costs. *See* Section III.B., *supra.* Specifically for the treatment of allied and support costs as Fixed, the Commission indicated that those cost pools vary by presort level and "[u]ntil the Postal Service explicitly models allied [and] support costs," it would continue to treat those cost pools as Piggybacked. Order No. 1320 at 40.

Thus, in both Docket No. R2006-1 and Docket No. RM2010-13, the Postal Service proposed to treat allied and support cost pools as Fixed and the Commission determined that those cost pools should be treated as Piggybacked. *Compare* PRC Op. R2006-1 at ¶¶ 5110-11, 5161, *with* Order No. 1320 at 34-35, 40-41. In Docket No. R2006-1, the Postal Service proposed to treat unexpected cost pools as Fixed; on the other hand, in Docket No. RM2010-13, the Postal Service sought to treat unexpected cost pools as Proportional, largely as a matter of convenience. *Compare* PRC Op. R2006-1 at ¶¶ 5110-11, 5161, *with* Order No. 1320 at 35. However, in both dockets, the Commission determined that unexpected cost pools should be treated as Piggybacked. *Compare* PRC Op. R2006-1 at ¶ 5161, *with* Order No. 1320 at 40-41. As

a result of the differing Postal Service proposals at issue, the Commission's analyses in Docket No. R2006-1 and Docket No. RM2010-13 addressed different aspects of the rationales underlying the existing cost pool assignments.

In the instant docket, the Postal Service proposes cost pool reassignments that differ from all prior proposals. With Proposal Two, the Postal Service identifies 19 specific cost pools, across all activity categories[49] and describes what it maintains are necessary cost pool reassignments. *See generally* Proposal Two. The Postal Service presents quantitative data to support its proposed cost pool reassignments, the validity of which is discussed in more detail above. Additionally, the Postal Service presents qualitative justifications for each cost pool reassignment as part of Proposal Two and through its CHIR responses. For allied and support cost pools specifically, the Postal Service notes that it carefully separates the costs into those that are influenced by actions necessary for presortation from those that are not so influenced. Postal Service Reply Comments at 1.

In the analysis provided below, the Commission notes that, for many of the cost pool reassignments, both the nature of the cost pool reassignment and the justification presented in Proposal Two differ from prior proposals. For each cost pool reassignment approved by the Commission in the instant proceeding, the Commission finds that the justification for the cost reassignment is accurate, reasonable, and an improvement over each cost pool's current treatment.

However, as commenters correctly point out, Proposal Two mirrors Docket No. R2006-1 and Docket No. RM2010-13 in some ways. Specifically, in Proposal Two, the Postal Service seeks to reassign allied and support cost pools from Piggybacked to Fixed, just as it has attempted previously. However, the Postal Service has yet to model allied and support costs as instructed by the Commission in Order No. 1320. As

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[49] *I.e.*, sorting costs; forwarding, accepting, and customer Service costs; unexpected costs; and allied and support costs. *See* Section III.B., *supra.*

discussed in more detail below, the Commission will continue to treat the allied and support cost pools as Piggybacked in the absence of persuasive quantitative evidence to the contrary. This treatment is consistent with prior Commission determinations in Docket No. R2006-1 and Docket No. RM2010-13.[50]

C.   Use of IOCS Tallies Data

As multiple commenters note, in Docket No. RM2010-13, the Commission stated that "[u]ntil the Postal Service explicitly models allied [and] support costs, the Commission will adhere to the established piggyback method of distributing those costs." Order No. 1320 at 40. In that docket, the Commission found that without quantifiable support, a qualitative analysis of the cost pools associated with the Postal Service's proposal led to the assumption that "mail processing labor costs incurred by allied operations will vary in rough proportion to the number of sorting operations that they undergo." *Id.* at 42. To reclassify allied and support cost pools as Fixed, the Postal Service would have to quantitatively prove they did not vary with presort level. Although the Postal Service does not model allied and support costs as part of Proposal Two, it does seek to support its proposed cost pool reassignments for Presorted Letters with quantitative data.

In Proposal Two, the Postal Service submits IOCS data linked with Full-Service IMb data that it contends supports all of its proposed cost pool reassignments. As indicated above, the Postal Service notes that although it is not possible to directly observe costs by presort level using IOCS tallies, rate and product data can be collected from mailpieces with a Full-Service IMb. Proposal Two at 11. In practice, IOCS data collectors scan barcodes during on-site readings. *Id.* If a mailpiece is

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[50] Additionally, as described below, the Commission accepts the Postal Service's proposal with respect to reassigning certain cost pools (MODS 1OPPREF, MODS 1OPBULK, MODS 1POUCHING) from Fixed to Piggybacked because these cost pools represent allied and support operations, which continue to be most appropriately treated as Piggybacked in the absence of persuasive quantitative evidence to the contrary.

directly matched, meaning a single barcode is scanned, then the Postal Service can identify the specific presort rate paid by the mailer using the Informed Visibility system. *Id.*

Generally, the Postal Service finds that the proportions of costs in each cost pool category (*i.e.*, Proportional, Fixed, and Piggybacked) should exhibit specific relationships to the percentage of RPW volumes. The Postal Service notes its expectation that proportions of costs would differ systematically from volumes for Proportional cost pools. *Id.* The Postal Service justifies its expectation based on the assumption that "increased presort levels [are] associated with lower costs relative to volumes." *Id.* Conversely, the Postal Service notes its expectation that Fixed cost pools exhibit proportions of costs similar to proportions of volumes. *Id.*

However, the Postal Service notes three limitations to its IOCS tally data. *Id.* at 12. First, IOCS data are not collected for NONMODS cost pools because scan data are not collected by phone readings, and phone readings are the primary reading method for NONMODS processing operations. *Id.* Thus, NONMODS cost pools are excluded from the Postal Service's quantitative data.[51] Second, barcode scans are not collected for all on-site readings due to a variety of other contingencies, such as barcode readability issues, hand scanner performance, and mailpiece packaging. Proposal Two at 12. Third, the matching process fails in some cases due to non-Full-Service IMb scans that cannot be matched to rate categories or due to database issues for some tallies with Full-Service IMb scans. *Id.*

Although data submitted with Proposal Two focus on FY 2020 alone, as part of its Response to CHIR No. 3, question 7, the Postal Service provided similar data for FYs 2018 and 2019. Figure VI-1 shows the proportions of IOCS data collection types in FYs 2018 through 2020.

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[51] *Id.* It is important to note that 6 of the 19 cost pool reassignments involve NONMODS cost pools. *See* Table IV-1, *supra.*

Figure VI-1
IOCS Tallies by Match Type[52]

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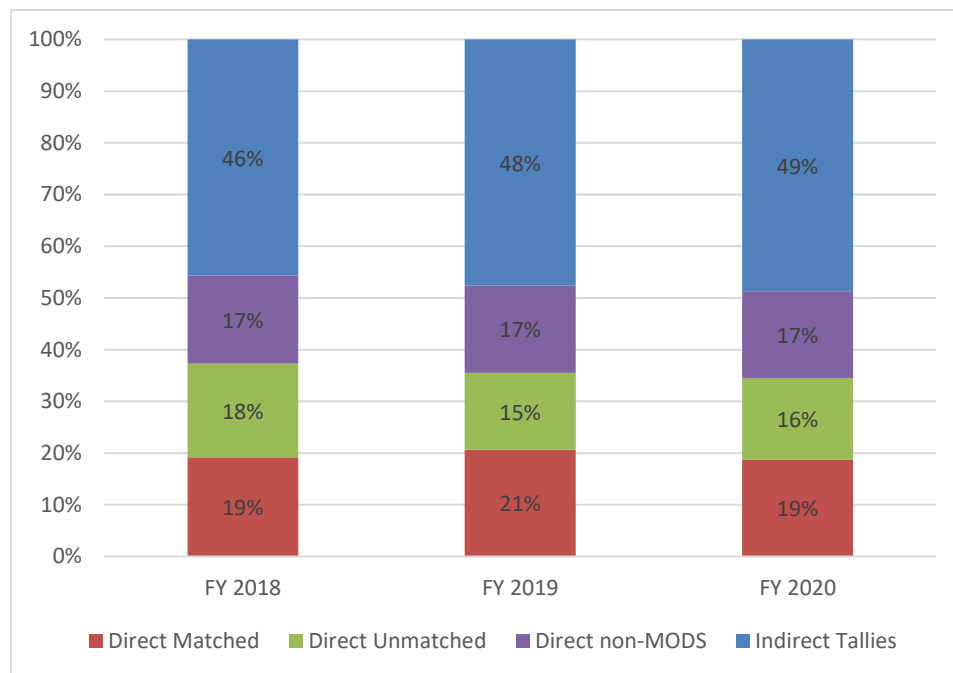
[52] *See* Library Reference PRC-LR-RM2021-4/1, February 22, 2022, Excel file "PRC-LR-RM2021-4.xlsx." "Direct Matched" is the sum of all MODS direct tallies that can be matched to a specific presort rate cell. "Direct Unmatched" is the sum of all MODS direct tallies that are not matched to a specific IMb or categorized as "other." "Direct non-MODS" is the sum of all non-MODS tallies. "Indirect" is the sum of all tallies that are not "Direct" and generally involve a mixed mail scan.

The Commission finds several issues with the validity of the Postal Service's data related to the use of IOCS tallies.

First, as noted by the Postal Service, the IOCS data submitted exclude data related to NONMODS cost pools. Nonetheless, the Postal Service seeks to use the data to support the cost pool reassignments for NONMODS cost pools which comprise 6 of the 19 cost pool reassignments. The Commission concludes that, due to the exclusion of NONMODS cost pools from the IOCS data, the quantitative data submitted by the Postal Service do not support the reassignment of the NONMODS cost pools.

Second, for each fiscal year, only approximately 20 percent of IOCS tallies can be directly matched to a mailpiece. The Postal Service applies the 20 percent sample to the entire model, which means that the majority of IOCS tallies are inferred rather than directly observed. For allied and support cost pools, such as MODS 1PLATFRM, only 6 percent of tallies are directly matched to a mailpiece, while the remaining 94 percent are not directly observed and are inferred. As a result, the Postal Service assumes the trends observed in 6 percent of the tallies is the same for the remaining 94 percent of the tallies. Allied and support cost pools like MODS 1PLATFRM contain mail that is mostly mixed, and the direct observations are not representative of the entire cost pool.

The Postal Service does not dispute these insufficiencies. In its Response to CHIR No.1, the Postal Service confirms that only a small proportion of direct tallies can be directly matched to a mailpiece. *See* Response to CHIR No.1, question 1. The Postal Service confirms that of the 1,242 direct tallies categorized as Fixed, only 155 tallies are matched to a rate category. *Id.* question 1.d. These data insufficiencies call into question the validity of the information presented by the Postal Service in its proposal. For example, the Postal Service uses Table 2 of its proposal to illustrate that there are distinct proportions of tallies by presort level, and because volume in the RPW report is similar to the tally proportion for Fixed cost pools, it indicates those cost pools do not vary by presort level. *See* Proposal Two at 13. However, in its Response to

CHIR No. 1, the Postal Service confirms that 91.9 percent of the direct tallies in cost pools categorized at Fixed were excluded from the data used to create Table 2. Response to CHIR No.1, question 2. Thus, the Commission agrees with commenters that the IOCS data submitted by the Postal Service are incomplete because the rate category information is only available for a small portion of IOCS samples. *See, e.g.*, Pitney Bowes Comments at 2. The Commission finds that the sample IOCS data that are directly matched to mailpieces provided are not representative of the population of tallies.

Finally, the trends observed by the Postal Service using FY 2020 only are not present in FY 2018 or FY 2019. Below, Figure VI-2 compares the percentages of directly matched IOCS tallies with RPW volumes. Each bar represents the sum of absolute differences between RPW volume and directly matched IOCS tallies for each presort rate cell. Taller bars represent larger differences between RPW volumes and directly matched IOCS tallies, while shorter bars represent RPW volumes that are more similar to proportions of directly matched IOCS tallies.

Figure VI-2
Differences Between IOCS Tallies and
Revenue, Pieces, and Weight Volumes by Cost Pool Category[53]

	FY 2020	FY 2019	FY 2018
Proportional	27	25	28
Piggybacked	16	23	27
Unrelated	10	46	27
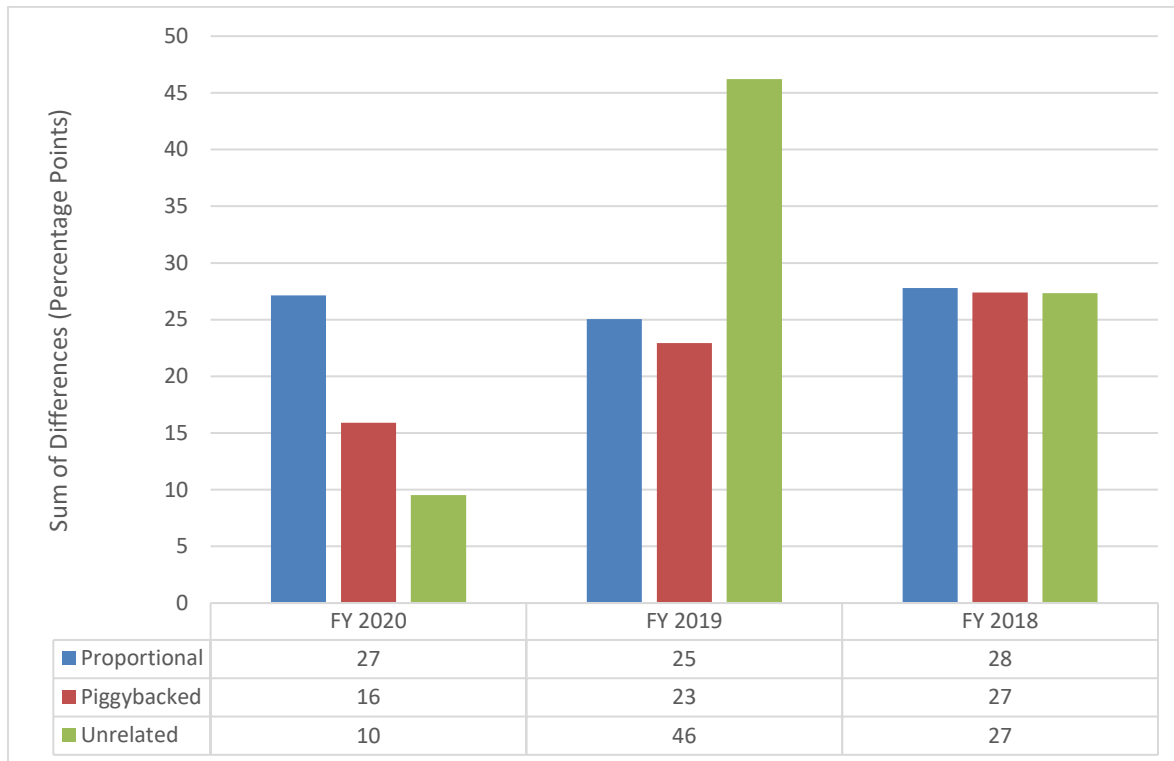
As the Postal Service indicates, data collected from FY 2020 display the types of trends the Postal Service uses as support for its cost pool reassignments. Tallies of Proportional cost pools differ most from RPW report volumes, followed by Piggybacked cost pools, and then Fixed cost pools. However, those same trends are not observed in FY 2018 or FY 2019. In FY 2018, there was no significant difference in the directly matched IOCS tallies between cost pools. In FY 2019, fixed cost pools had the greatest difference in directly matched IOCS tallies from volume in the RPW report. Given the variation in the directly matched IOCS tallies proportions by cost pool category over the 3 years, the Commission finds that it is more likely that the proportions observed by the

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[53] *See* Library Reference PRC-LR-RM2021-4/1, Excel file "PRC-LR-RM2021-4.xlsx."

Postal Service in FY 2020 appeared to support its expectations due to the specifics of the data sample for that year. The record lacks evidence to support an assumption that the proportions observed in FY 2020 will occur in other years.

The Postal Service confirms that tally and RPW volume proportions can differ for several reasons. It indicates that IOCS tally proportions are subject to sampling variability and that, because Fixed cost pools have fewer directly matched tallies, the proportions have relatively large sampling variabilities. Response to CHIR No. 5, question 2.c. In addition, the Postal Service states that "the proportions can differ from RPW proportions by presort category due to differences in the mixes of entry points." *Id.* The Postal Service states that "it is sufficient but not necessary for the '[Fixed]' classification that the tally and RPW proportions are similar." *Id.* Thus, the Postal Service's justification for the reassignment of cost pools is based on results that are "sufficient but not necessary" from year to year. The Commission finds this reasoning inadequate to support the conclusion that tally proportions have a relationship with RPW volumes and are therefore not related to presort level.

For the reasons discussed above, the Commission finds that the quantitative data submitted by the Postal Service do not support the cost pool reassignments in Proposal Two. The sample of IOCS tallies that can be directly matched to specific mailpieces is not representative of the entire population of IOCS tallies. Furthermore, even if the sample of IOCS tallies were representative of the entire population of IOCS tallies, the trends observed by the Postal Service in FY 2020 are not present in FY 2018 or FY 2019.

D. Cost Pool Reassignments Based on Qualitative Support

In addition to the quantitative data, the Postal Service also submitted qualitative data that it uses to justify the proposed cost pool reassignments in Proposal Two.

As discussed above, there are 52 cost pools associated with the Presorted Letters cost avoidance models; however, under Proposal Two, the Postal Service seeks

to reassign only 19 cost pools. The proposed cost pool reassignments can be organized into groups based on the nature of their reassignment and the associated justification. *See, e.g.*, Section IV.B., *supra.* The Commission's analysis follows the same organization.

MODS AFSM100, MODS FSS, MODS MANF, NONMODS MANF, and NDCS FSS. The Postal Service seeks to reassign these cost pools from Piggybacked to Proportional. These cost pools represent Flats distribution operations. The Postal Service states "some letter mail can and does flow into the flat-shape mailstream...." Proposal Two at 5-6. The Postal Service notes that "letter shaped pieces, often those with larger dimensions, can be processed on flats equipment." Response to CHIR No. 2, question 3.b. In addition, the Postal Service contends that "[s]ince distribution in flat operations (for letter-shape mail directed to such operations) is avoidable with presorting, those operations are appropriately treated as proportional." Response to CHIR No. 3, question 4.

It is clear that some letters inevitably flow into flats operations due to the shape or size of the letter. While the letter flows in flats operations are not explicitly modeled due to low volumes, for the reasons described by the Postal Service, it is reasonable to treat flats operations as distribution activities. Since distribution activities are most appropriately treated as Proportional, the Commission approves the reassignment of the MODS AFSM100, MODS FSS, MODS MANF, NONMODS MANF, and NDCS FSS cost pools from Piggybacked to Proportional.

MODS 1OPPREF, MODS 1OPBULK, and MODS 1POUCHING. The Postal Service seeks to reassign these cost pools from Fixed to Piggybacked. These cost pools represent allied operations in which mail is received and broken down for processing on sortation machines. With regard to the MODS 1OPPREF and MODS 1OPBULK cost pools, the Postal Service states that "[t]he primary function of opening units including MODS 1OPPREF and MODS 1OPBULK for presorted letter mail is to manually break down containers and distribute trays of mail to distribution operations or

other downstream processing activities." Response to CHIR No. 3, question 5. The
Postal Service further states that "the accepted method inconsistently treats similar
automated and manual operations related to tray sortation." *Id.* For these reasons, the
Postal Service concludes that "Proposal Two harmonizes the treatment of these
operations based on the accepted treatment of the MODS 1TRAYSRT cost pool." *Id.*

With regard to the MODS 1POUCHING cost pool, the Postal Service states that
although "[t]he primary function of MODS 1POUCHING is distribution and/or separation
of parcels and bundles, …the costs may be partly avoidable with presort." *Id.* question
6.

The Commission agrees that the MODS 1OPPREF, MODS 1OPBULK, and
MODS 1POUCHING cost pools are allied and support cost pools. Since allied and
support operations are most appropriately treated as Piggybacked, the Commission
approves the reassignment of the MODS 1OPPREF, MODS 1BULK, and MODS
1POUCHING cost pools from Fixed to Piggybacked.

MODS REWRAP, MODS EXPRESS, and NONMODS EXPRESS. The Postal
Service seeks to reassign these cost pools from Piggybacked to Fixed. These cost
pools represent operations that are accidental in nature. With regard to the MODS
EXPRESS and NONMODS EXPRESS cost pools, the Postal Service states that
"Presorted Letters "are typically not processed in Express Mail operations" and that the
mail being handled in these operations "is likely the result of an accident not caused by
workshare activities." Response to CHIR No. 2, question 3.a.

With regard to the MODS REWRAP cost pool, the Postal Service states that
"mail processed in the MODS REWRAP pool has been damaged accidently[,]" and
"[a]ccidental damage is not caused by workshare activities." *Id.*

The Commission concurs that the MODS REWRAP, MODS EXPRESS, and
NONMODS EXPRESS cost pools are related to operations that are accidental in
nature. Operations that are accidental in nature have no relation to presort level.

Because operations with no relation to presort level are most appropriately treated as Fixed, the Commission approves the reassignment of the MODS EXPRESS, NONMODS EXPRESS, and MODS REWRAP cost pools from Piggybacked to Fixed.

MODS 1MISC and NONMODS MISC. The Postal Service seeks to reassign these cost pools from Piggybacked to Fixed. The Postal Service states that "[t]he activities performed in MODS 1MISC and NONMODS MISC are, as the title implies, miscellaneous in nature, including such activities as the destruction of UAA mail." *Id.*

With regard to the MODS 1MISC cost pool, the Postal Service states that most of the workhours in the cost pool are "used for Mail Processing activities that cannot be classified into another existing operation" and "[i]ncludes hours for sign painting, drafting and arts, moving equipment labeling cases, clearing mail chutes in public buildings, treatment in the medical unit, first aid, civil defense activities, guide duty, and consultations with [the] Human Resources section." Response to CHIR No. 3, question 2.

With regard to the NONMODS MISC cost pool, the Postal Service states that the "cost pool is defined residually as any IOCS mail processing activity not assigned to another non-MODS cost pool." *Id.*

The Commission agrees that the MODS 1MISC and NONMODS MISC cost pools are associated with operations that have no relationship with presort level. Because operations with no relation to presort level are most appropriately treated as Fixed, the Commission approves the reassignment of the MODS 1MISC and NONMODS MISC cost pools from Piggybacked to Fixed.

NONMODS BUSREPLY. The Postal Service seeks to reassign this cost pool from Proportional to Fixed. This cost pool represents an operation that is accidental in nature. When the NONMODS BUSREPLY cost pool was approved in Order No. 920,

the cost pool was assigned as Proportional.[54] The Postal Service states that the current treatment is "inconsistent with the accepted model's treatment of the MODS BUSREPLY cost pool as a non-worksharing fixed cost pool" and that "[t]he proposal would treat both BUSREPLY cost pools consistently." Response to CHIR No. 2, question 3.d.

The Commission agrees that Business Reply operations are due to accidental leakage. Operations that are accidental in nature have no relation to presort level. Because operations with no relation to presort level are most appropriately treated as Fixed, the Commission approves the reassignment of the NONMODS BUSREPLY cost pool from Proportional to Fixed.[55]

MODS 1PLATFRM, NONMODS ALLIED, MODS 1SCAN, and NDCS PLA. The Postal Service seeks to reassign these cost pools from Piggybacked to Fixed. The Postal Service maintains that the costs associated with these cost pools vary due to dropshipping and not presort level. In Order No. 1320, the Commission stated that "it is reasonable to assume that mail processing labor costs incurred by allied operations will vary in rough proportion to the number of sorting operations that they undergo." Order No. 1320 at 42. The Postal Service has not presented any evidence in this docket to invalidate that assumption. The Commission concluded that "[u]ntil the Postal Service explicitly models allied [and] support costs, the Commission will adhere to the established piggyback method of distributing those costs." *Id.* at 40.

Under current methodology, the MODS 1PLATFRM, NONMODS ALLIED, MODS 1SCAN, and NDCS PLA cost pools are associated with allied and support operations. The Commission will once again adhere to the current methodology. As discussed in

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[54] Docket No. RM2011-12, Order Concerning Analytical Principles for Periodic Reporting (Proposals Four Through Eight), October 21, 2011 (Order No. 920). NONMODS BUSREPLY was created along with four other costs pool; however, an explanation related to their Proportional assignment was not provided. *See* Order No. 920 at 12-13.

[55] The Commission notes that within the Fixed cost pool categorization, NONMODS BUSREPLY includes non-workshare-related fixed costs.

Section IV.A., *supra*, the Postal Service submitted IOCS data linked with Full-Service IMb data in support of all cost pool reassignments. The Commission finds that the data are insufficient as the grounds for the reassignment of any cost pools as discussed above, the Commission also finds the Postal Service's qualitative analysis presented in the instant docket insufficient to justify reclassifying these cost pools. The Postal Service's qualitative analysis concerning these cost pools merely echoes the arguments that were previously rejected concerning the operational inferences underlying the existing assignment of allied and support cost pools in Docket No. R2006-1 and Docket No. RM2010-13.[56] For these reasons, the Commission will continue to assign the MODS 1PLATFRM, NONMODS ALLIED[57], MODS 1 SCAN, and NDCS PLA cost pools as Piggybacked.

NON MODS D.PO BOX. The Postal Service seeks to reassign this cost pool from Proportional to Fixed. The Postal Service maintains that PO Box distribution costs occur irrespective of presort level. Proposal Two at 6. The Postal Service uses a previous Commission decision related to the classification of PO Box costs for Flats to support its assertions. *Id.* at 6-7; *see* Order No. 1656 at 17. In Order No. 1656, the Commission found that the PO Box distribution cost for Flats was unrelated to worksharing because there was no evidence indicating mailpiece preparation and mailstream entry would impact the time it takes to sort a Flats mailpiece into a PO Box. *Id.* Pitney Bowes contends that Order No. 1656 is not applicable because almost all

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[56] *Compare* Proposal Two at 7, *and* Responses to CHIR No. 2, question 3.c., *with* PRC Op. R2006-1 at ¶¶ 5111-12, 5161, *and* Order No. 1320 at 34-42.

[57] With regard to the NONMODS ALLIED cost pool, in Response to CHIR No. 6, question 3.e., the Postal Service states that "pieces flowing from an automated Incoming Secondary operation would likely come directly from the operations of cost pool NONMODS ALLIED." *See* Response to CHIR No. 6, question 3.e. If a letter requires sortation at the destination delivery unit, the letter is involved in two operations within the NONMODS ALLIED cost pool, to and from the sortation machine. If a letter does not require sortation at the destination delivery unit, the letter is involved in one operation within the NONMODS ALLIED cost pool, to the final destination. Based on these observations, cost pool NONMODS ALLIED is appropriately assigned as Piggybacked.

Flats are sorted only through carrier route on automation, while Letters are almost always sorted to DPS automation. Pitney Bowes Comments at 33.

The Commission concurs with Pitney Bowes and finds that the Commission's prior conclusions in Order No. 1656 related to Flats are not applicable to Letters. The Commission observes that there are reasons why the impacts of mail preparation or mailstream entry on PO Box costs may relate to the delivery of Letters in particular. For example, more finely presorted mailpieces have a greater chance of being sorted into DPS trays compared to less finely presorted mailpieces, which have a greater likelihood of rejection and recourse to manual sorting. If more finely presorted mailpieces have a greater likelihood of sortation to DPS, it is likely that DPS mailpieces will be distributed to boxes more quickly than non-DPS mail. The Postal Service admits that "a [Mixed AADC] Presort Letter destined for a P.O. Box will have a lower percent probability of arriving at the delivery unit in a DPS tray than a 5-Digit Presort Letter destined for a P.O. Box." Response to CHIR No. 6, question 3.f. It further admits that the delivery costs for Presorted Letters differ due to differences in DPS percentages.[58] It confirms that "measured delivery costs differentials by presort level are driven, chiefly, by differences in the [DPS] percentages by presort level." Response to CHIR No. 5, question 1.

The Commission notes that Presorted Letters that are more highly presorted and not destined to a PO Box have a higher percentage likelihood of arriving at the destination delivery unit in a DPS tray. Based on the Postal Service's responses to CHIR No. 5 and CHIR No. 6, the same holds true for Presorted Letters that are destined to a PO Box. For a Presort Letter destined to a PO Box, the higher the level of presort, the higher percentage of arriving in a DPS tray.

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[58] *See* Docket No. ACR2020, Library Reference USPS-FY20-10, December 29, 2020, Excel file "USPS-FY20-10 FCM Letters.xlsx," tab "SUMMARY."

The Commission concludes that the Postal Service's qualitative analysis alone is insufficient to illustrate definitively whether presort level impacts PO Box distribution costs. Thus, the Commission does not approve the reassignment of NONMODS D.PO BOX cost pool as Fixed, and therefore it will remain Proportional.

E.   Summary of Commission-Approved or Rejected Cost Pool Reassignments

Below, Table VI-1 summarizes the proposed cost pool reassignments that the Commission accepts and rejects.

Table VI-1
Cost Pool Reassignments Under Proposal Two and Commission Findings

Cost Pool	Current Assignment	Proposed Assignment	Commission Findings
MODS AFSM100	Piggybacked	Proportional	Accept
MODS FSS	Piggybacked	Proportional	Accept
MODS MANF	Piggybacked	Proportional	Accept
NONMODS MANF	Piggybacked	Proportional	Accept
NDCS FSS	Piggybacked	Proportional	Accept
MODS 1OPPREF	Fixed	Piggybacked	Accept
MODS 1OPBULK	Fixed	Piggybacked	Accept
MODS 1POUCHNG	Fixed	Piggybacked	Accept
MODS REWRAP	Piggybacked	Fixed	Accept
MODS EXPRESS	Piggybacked	Fixed	Accept
NONMODS EXPRESS	Piggybacked	Fixed	Accept
MODS 1 MISC	Piggybacked	Fixed	Accept
NONMODS MISC	Piggybacked	Fixed	Accept
NONMODS BUSREPLY	Proportional	Fixed	Accept
MODS 1PLATFRM	Piggybacked	Fixed	Reject
NONMODS ALLIED	Piggybacked	Fixed	Reject
MODS 1SCAN	Piggybacked	Fixed	Reject
NDCS PLA	Piggybacked	Fixed	Reject
NONMODS D.PO BOX	Proportional	Fixed	Reject

After consideration of Proposal Two, the resulting Commission assignment for each cost is consistent with the type of operation at issue, as displayed in Table VI-2.

Table VI-2
Cost Pools, by Operation and Commission Assignment

Cost Pool	Type of Operation	Commission Assignment
MODS AFSM100	Distribution	Proportional
MODS FSS	Distribution	Proportional
MODS MANF	Distribution	Proportional
NONMODS MANF	Distribution	Proportional
NDCS FSS	Distribution	Proportional
MODS 1OPPREF	Allied/Support	Piggybacked
MODS 1OPBULK	Allied/Support	Piggybacked
MODS 1POUCHNG	Allied/Support	Piggybacked
MODS REWRAP	Accidental	Fixed
MODS EXPRESS	Accidental	Fixed
NONMODS EXPRESS	Accidental	Fixed
MODS 1 MISC	Miscellaneous/Residual	Fixed
NONMODS MISC	Miscellaneous/Residual	Fixed
NONMODS BUSREPLY	Accidental	Fixed
MODS 1PLATFRM	Allied/Support	Piggybacked
NONMODS ALLIED	Allied/Support	Piggybacked
MODS 1SCAN	Allied/Support	Piggybacked
NDCS PLA	Allied/Support	Piggybacked
NONMODS D.PO BOX	Distribution	Proportional

Thus, absent persuasive evidence to the contrary, the following operational inferences continue to apply. Cost pools corresponding with accidental or miscellaneous/residual operations are reasonably considered unrelated to presort level and treated as Fixed. Cost pools corresponding with allied and support operations are assumed to vary with presort level and are treated as Piggybacked. *See* PRC Op. R2006-1 at ¶¶ 5111-12, 5161; Order No. 1320 at 34, 40-42. Cost pools corresponding with distribution operations are assumed to be impacted by presort level and are treated as Proportional.

F.   Cost Pool Category Terminology

With Proposal Two, the Postal Service seeks to "revise cost pool classifications for the determination of the proportional and fixed adjustments to modeled costs" and "update the cost pool classification vocabulary to better reflect how the cost pools are treated in the calibration methodology." Proposal Two at 4. It maintains that the terminology currently used to describe cost pool assignments, *i.e.*, "Proportional," "Fixed," "unexpected," "allied and support," and "non-workshare related" can be "opaque" and "inconsistent with uses of similar terms elsewhere." *Id.* For that reason, the Postal Service proposes three new cost pool classifications: "Modeled/Proportional Pools," "Unrelated to Presort," and "Correlated with Modeled." *Id.* The Postal Service contends that the new terms will "better reflect how each cost pool is treated in the model calibration." *Id.*

The Commission acknowledges that the proposed cost pool terminology changes represent a simple change in nomenclature. Furthermore, as the Commission has previously noted, the proposed terminology is interchangeable with the currently accepted terminology (*i.e.*, Proportional, Piggybacked, Fixed). *See* Table-IV-2, *supra*. In addition, the proposed terminology does not alter the mathematical treatment of these cost pools, as each proposed cost pool category will be appropriately included or excluded from the CRA adjustment factor. As a result, the Commission finds that the proposed terminology changes are not significant for purposes of the methodology and

do not rise to a change in analytical principle. For these reasons, the Commission accepts the proposed cost pool terminology changes.

G.   Removal of Costs Associated with PO Boxes

The Postal Service proposes to remove PO Box costs from the cost avoidance model for Presorted Letters. It states that "[t]here is no longer a need to model the activity of distributing pieces to P.O. boxes because these costs are explicitly measured in the Folder 26…costs." Proposal Two at 10. Additionally, the Postal Service claims costing enhancements, such as the CRA methodology change to measure costs of PO Box distribution separately from other NONMODs manual operations and the merging of MODS LDC 44 and NONMODS D.PO BOX, eliminate the need to model PO Box distribution costs. *Id.* The Postal Service also claims that discontinuing the PO Box component of the Presorted Letters cost avoidance model improves data quality, as the model relies on outdated productivity figures. *Id.* at 11.

As noted above, the Public Representative supports the discontinuing the PO Box modeled costs, stating that the Postal Service makes a reasonable argument that PO Box costs are already explicitly measured. PR Comments at 5. However, Pitney Bowes and NPPC *et al.* do not support the removal of PO Box modeled costs. *See* NPPC *et al.* Comments at 7, 9; Pitney Bowes Comments at 32. These commenters maintain that the Postal Service's proposal to remove PO Box modeled costs is based on its unsupported premise that distributing mail to PO Boxes does not vary with presort level. *See* NPPC *et al.* Comments at 7, 9; Pitney Bowes Comments at 32.

In Docket No. R2006-1, the Postal Service proposed to exclude the resulting delivery cost avoidances from the Presorted Letter cost avoidance model. The Commission rejected this proposal on the basis that delivery costs varied by presort level due to presort-related differences in DPS percentages. *See* PRC Op. R2006-1 at ¶ 5158. The Commission rejects the Postal Service's proposal to remove PO Box modeled costs for the same reason. The Postal Service concedes that differences in

PO Box modeled unit costs result from differences in the percentage of each presort level sorted in automated DPS operations. The Postal Service's own letter cost model shows different delivery costs at each presort level (Automation Mixed AADC, Automation AADC, and Automation 5-Digit Letters). The Postal Service explains that "the measured delivery costs differentials by presort level are driven, chiefly, by differences in the [DPS] percentages by presort level." Response to CHIR No. 5, question 1. The Postal Service states that "[Mixed AADC] pieces have a lower DPS percentage and thus require more manual casing than AADC and 5-Digit pieces, and thus higher measured costs." *Id*. Letters arriving in non-DPS trays require more handling than letters arriving on DPS trays. The Postal Service explains that "[b]efore the operations of cost pool NONMODS D.PO BOX, a DPS Presort Letter destined for a P.O. Box would likely come directly from the operations of cost pool NONMODS ALLIED[,]" while "a non-DPS Presort Letter destined for a P.O. Box flowing from a manual Incoming Secondary operation would likely come directly from the operations of cost pool NONMODS MANL and before that the operations of cost pool NONMODS ALLIED." Response to CHIR No. 6, questions 3.d.-3.e. The Postal Service's proposed removal of PO Box distribution costs suggests that there is no difference between the treatment of letters arriving on DPS and non-DPS trays and that costs are fixed. However, such assumptions are inconsistent with the responses provided by the Postal Service to the CHIR questions.

The Postal Service explains that "the modeled PO Box cost is highly dependent on the assumed PO Box distribution productivity of 1,951 pieces per hour for the 'Box Section Sort, DPS' activity in the USPS-FY20-10 model," an assumption that "dates back" to Docket No. MC95-1. Response to CHIR No. 1, question 4.d.; *see generally* Docket No. MC95-1, USPS-T-10. The Postal Service explains that the assumed productivity from Docket No. MC95-1 was determined before the widespread implementation of DPS. Response to CHIR No. 1, question 4.d. The Postal Service admits that these assumed productivity figures understate actual costs for PO Box distribution. Proposal Two at 11. The Postal Service explains that "the assumed 1,951

pieces per hour figure in the currently approved model—allowing 1.84 seconds per piece—is implausibly high for a manual distribution activity." Response to CHIR No. 1, question 4.d. However, the Commission notes that the Postal Service has not studied PO Box distribution costs in order to provide data to support its claim. Thus, the Commission encourages the Postal Service formally study PO Box distribution productivity.

For the reasons discussed above, the Commission finds that the Postal Service does not provide sufficient evidence to support its assertion that it can accurately measure costs associated with PO Box distribution and illustrate that those costs do not vary by presort level. The Commission rejects the Postal Service's proposal to remove PO Box costs from the Presorted Letters cost avoidance model.

VII.   ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the Postal Service's Proposal Two is approved, in part, as discussed in the body of this Order.

By the Commission.

Erica A. Barker
Secretary